

**Market Reforms and Rent-Seeking:  
An Analysis of Rent-Seeking in Trade Liberalization  
and Privatization**

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**Abstract**

Market reforms have been studied by numerous scholars but always in regards to the nature of reforms themselves. This paper analyzes rent-seeking in different types of market reforms: trade liberalization and privatization; in addition the role of the state and its effectiveness in discouraging or encouraging rents is also assessed. Through a case study of three countries, Taiwan, South Korea, and the Philippines, I argue that opportunities for rent seeking will be more prevalent in trade liberalization than in privatization because of its complex nature.

## **Introduction**

Market reforms are implemented to remove distortions that exist in the market and as a means to improve efficiency and increase the welfare of individuals (Self, 1993: 275-276). The concept of market reform has been previously studied by numerous scholars before but always in regards to the reform process itself and the characteristics of reform. Usually market reforms have been studied in the context of cost-benefit analysis and success-failure dynamics as market reforms require strong constraints and incentives in order to engage firms to commit to the reform and therefore allow it to be carried out (Self, 1993: 276). Thus, the discussion on market reforms has revolved around debates on issues such as the costs and benefits of implementing reform, what the consequences of reform will be, when to engage in market reforms, and what are the best ways to carry out reform: gradually or rapidly. One classic association with market reforms is the Washington Consensus which developed ten broad policy recommendations for countries that want to implement market reforms.<sup>1</sup>

Straying away from the conventional analysis of the market reform process and nature of market reforms itself, one scholar that brings in a new perspective on the study of market reforms is Hector Schamis (2002). Schamis examines not only the intrinsic characteristics of market reforms in of themselves, but also how the nature of market reforms interacts with other elements by introducing the concept of rent-seeking into the arena. Schamis points out that we need to take into consideration the interaction effects that can occur as a result of the implementation process. In addition, we should also be wary of the consequences of these interactions because they may not all be positive on the market and on society.

What exactly is rent-seeking and what does the term imply? Rent-seeking is a term used to describe activities that exploit resources for personal gain; it is not the act of creating wealth

but benefitting from wealth that is created by others (Financial Times Lexicon, 2011). Rent-seeking can take many forms and it can fall along legal lines such as lobbying, political contributions, or the formation of unions. It can also be illegal such as bribery, corruption, or smuggling (Kreuger, 1974: 291; “Rent Seeking and Corruption”, 2006: 510, 512). Some rents can be socially damaging, i.e. when they result in decreases in net outputs; while others can be beneficial, i.e. when they increase the development of new technologies (“Rent Seeking and Corruption”, 2006: 511). The general view on rent-seeking is negative as it is often considered inefficient and wasteful because individuals divert resources from other productive activities they could have been engaged in. Not every individual will engage in rent-seeking activities because there are opportunity costs associated with deciding to engage in rent-seeking. Those who are more organized and who anticipate a gain from rent-seeking will engage in rent-seeking more readily than those who have higher costs associated with their decision to partake in rent-seeking (“Rent seeking”, 2008: 96). In addition, if left unchecked, rent-seeking can result in corruption and the concentration of power and control in the few (“Rent Seeking and Corruption”, 2006: 511).

Schamis’s main argument is that because market reforms are intended to benefit society as a whole, this will make them susceptible to collective action problems. Therefore, since market reforms share similar properties with public goods, reforms themselves can be perceived as a public good as well. In addition, during the process of reform, privileges of individuals are re-arranged. Thus, those individuals who already enjoy large privileges will want to try and maintain a closed economy to protect their own vested interests. On the other hand, those who will gain more privileges from the reform will defend an open economy (Schamis, 2002). This will result in a “tragedy of the commons” scenario and lead to rent-seeking activities by

individuals.<sup>2</sup> Most importantly, Schamis argues that market reforms will generate rents instead of dismantle them because the policy instruments intended to overcome rent-seeking behavior become the source of rents themselves (Schamis, 2002). This means that policy recommendations, such as those put forth by the Washington Consensus, will create opportunities for individuals to extract rents rather than eliminate them.

Contrary to economic liberals who believe the state should be removed from the reform process, Schamis argues that the power of the state is actually enhanced through reform and thus governments should be more committed to the market. Liberals believe that the process of “creative destruction”, a process that “attacks its own institutional framework,” will replace old systems with newer ones and constrain the possibilities available to individuals (Schumpeter, 1942: 83, 141, 129). Therefore, if the economy were allowed to run by itself with minimal state intervention, it should not encounter any free-rider problems (Arnold, 2009: 27). Schamis argues that to combat rent-seeking, the state needs to be committed to the market to make it less penetrable and, as a result, discourage the formation of distributional coalitions. Unless policymakers are uncompromising with groups, rent-seeking activities will not be discouraged (Schamis, 2002).

My paper will use the framework put forth by Schamis to examine the interrelationships between market reforms and rent-seeking. Rather than examine market reforms as a whole, I will look at rent-seeking opportunities in different types of market reform, specifically trade liberalization and privatization, using case studies of three countries: Taiwan, South Korea, and the Philippines. Each of the three cases will be examined with respect to the opportunities that opened up for rent-seeking as a result of each country’s implementation of the two types of reform. There will be a focus on the social implications of rent-seeking activities and what the

consequences of these activities will have on society. I argue that rent-seeking will be more widespread in trade liberalization than in privatization because due to its broader nature, individuals will be more willing to engage in rent-seeking activities. Lastly, I will also examine the role played by the state and its effectiveness in discouraging or encouraging rent-seeking activity.

## **Literature Review**

In economic reforms, collective action problems arise because reforms share similar properties of public goods. Reforms are non-exclusive processes and either society benefits as a whole or a large number of people are the potential beneficiaries (Haggard, 1995:156; Schatzman, 2005:12; Schamis, 2002). Thus, reforms are expected to be difficult for governments to implement because the privileges of individuals will be rearranged and there may be certain individuals for whom market reform will not appear desirable (Schatzman, 2005:12; Haggard, 1995: 157). The costs of reform are immediate and concentrated while the benefits are delayed and dispersed which can produce perverse organizational incentives. Those who now enjoy a sudden increase in wealth as a result of market reforms will want to expand their political influence to maintain those privileges. On the other hand those that are victims of reform and are made less well-off as a result, will try to retard it. The time-inconsistency problem of reforms magnifies the costs of reform even more and creates the illusion of greater inequality, which can compel individuals to engage in rent-seeking activities.

Not all reforms will result in concentrated costs and dispersed benefits (Schatzman, 2002). Reforms that open up political space and create a realignment of political and economic interests will reallocate rents and change the costs and benefits involved (Schatzman, 2005: 37). Some scholars believe reforms that generate a net social gain can be politically viable *if* a portion

of the gains are used to compensate those groups that are experiencing losses although the problem is that such a compensatory mechanism may fail to exist (Haggard, 1995: 157). Other scholars believe the state must discourage coalition forming completely to discourage rent-seeking (Schamis, 2002). Despite these conflicting viewpoints regarding the role of the state, the concluding consensus among scholars is that the organization of state institutions and the distribution of political power can significantly increase or decrease the input costs of rent-seeking (Khan, 2000:74).

In addition to the role of the government and its stance on interest groups and coalition formation, another factor that should also be taken into consideration is the degree and level of embeddedness of the state in the market. The level of embeddedness of the state can affect the prospects of rent-seeking by sending signals to individuals about what they can expect from the state. More important is whether or not individuals view the state as a coherent entity. States that are able to present themselves as a coherent entity can insulate themselves from the demands of individual firms and minimize any opportunities for rent-seeking (Evans, 1992: 146,148). By being viewed as a coherent entity, private elites will then send the message that they are a credible government and are invested in the long-term economic performance of the country. This creates a sense of trust and transparency between the state and individual actors, and minimizes the incentives for interest groups to engage in rent-seeking activities (Campos and Hilton, 1996: 102).

The threat to rent-seekers comes from a truly free market since the rent-seeker's strategy involves a mixture of freedom and regulation; they want economic freedom for themselves but severe regulations for others (Åslund, 2007: 48). With a free market, there is no longer any room for rent-seekers to seek out price arbitrage between state and private market prices (Åslund, 2007:

52). Åslund differentiates between two types of reform: radical reform and partial, gradual reform. He argues that the purpose of the gradual reforms is to maximize rents to the select few in the ruling elite (Åslund, 2007: 83).

Market reform policies, in particular trade liberalization and privatization, are intended to reduce rent seeking activities and corruption by making the costs associated with rent-related activities outweigh the benefits (“Rent Seeking and Corruption”, 2006: 511). Thus, the majority of scholarly research on trade liberalization and privatization follow a parallel path. It is focused on the effectiveness of efficiencies and growth generated by these two types of reform. While there is limited work on the issue of rent-seeking in market reforms, the majority of scholars agree that privatization restricts the opportunities for rent-seeking either because it is not as prone as trade liberalization to external shocks (Åslund, 2007: 52) or because it exposes industries to market discipline (Schatzman, 2005: 38).

### **Main Argument**

In this paper, I argue that rent-seeking will be more apparent in trade liberalization than in privatization, as trade liberalization encompasses a wider scope and range of activities and agents. This element of breadth, problems of time inconsistency, and the various positions of firms, all interact with one another and make the costs of *not* engaging in rent-seeking activities more costly to a firm. Thus, firms who want to be at an advantage in the trade liberalization reform process will engage in rent-seeking.

Both the trade liberalization and privatization processes expose firms to market discipline, and according to scholars should limit the opportunities for rent-seeking. Albeit trade liberalization is more prone to external shocks which introduces various other factors into the picture that can influence these opportunities (Åslund, 2007). Trade liberalization is often viewed

as the result of exogenous forces as governments have to take into account what the consequences of policy interventions will be before enacting any particular trade policy. The trade liberalization process occurs slowly over time and its effects are not as readily visible, which can magnify the contrasts between winners and losers of reform even more.

The process of trade liberalization itself aims to reduce practices that thwart the flow of trade and entails various smaller components to carry out that goal, e.g. the removal of tariffs, quotas, licensing regulations, and subsidies (Coughlin et al., 2000). The actors involved comprise not only the domestic sphere but that of the international realm as well. In addition, the participants occupy a hierarchy of positions: firms may vary on their levels of development and efficiency (Irwin, 1996). When trade liberalization policies are introduced and implemented, those that are at a disadvantage, i.e. infant industries, non-innovative firms, inefficient firms, etc., will engage in rent-seeking activities to protect themselves from any harmful effects that ensue (Coughlin et al., 2000). Not only will disadvantaged firms engage in rent-seeking activities, but advantaged firms may as well for fear they will have the lower hand as a consequence of liberalization or as an attempt to maintain whatever privileges they previously possessed but no longer do (Rogowski, 2000).<sup>3</sup> This “tug-of-war” between the two groups of firms can create a zero-sum mentality where the advantaged firms and disadvantaged firms are at odds with one another. Therefore, firms will be more willing to engage in rent-seeking because they see that the costs of not engaging will be a lot higher.

Contrary to trade liberalization, the privatization process does not involve as vast an amount of instruments for implementation and thus can be considered more constrained in the modes of reform. Though various methods of privatization exist, they are all very general in nature. Such methods include privatization through restitution, privatization through sale of state

property, voucher privatization, and privatization from below (Brada, 1996). As in trade liberalization, privatization can also involve domestic as well as international actors although the volume of actors involved is of a smaller scale. Any rent-seeking activities that occur in the privatization process would most likely occur over the privatization process and the details regarding the transfer and sale of property.

A lot of literature has focused on the efficiency-enhancing abilities of privatization but not so much on the equity-enhancing aspects of privatization. Privatization may be arranged so that direct ownership is spread among the affected population but it can also deny pension benefits and the creation or elimination of employee assets (Birdsall and Nellis, 2003: 1623, 1624). While the aim of privatization is to privatize the public enterprise, it is not uncommon for governments to still own a large block of shares at the end of the privatization process and for states to be either the largest shareholder of the firm or a small group of individuals who retain ownership of the enterprise (Brada, 1996: 78-79). In addition, many foreign actors are restricted from participating in the privatization process and or are highly regulated if they are allowed to participate (Adam, Cavendish, and Mistry, 1992: 50).

We can expect to observe less rent-seeking in privatization not only because of the smaller scope of participants and the constraints on who can purchase and participate in the privatization but when compared with trade liberalization, individuals will be less willing to engage in rent-seeking activities. While privatization is more susceptible to exposure from internal actors to engage in rent-seeking, actors will be less willing to do so because of the higher risks that are involved in privatization. Compared to trade liberalization, there are a lot more risks involved in privatization because there is the uncertainty of whether or not the government

will commit to the privatization or whether or not the privatization will be successful. Thus, actors will be less willing to engage in rent-seeking because of these higher risks.

## **Methods**

This paper will involve qualitative case study analyses with research from three different countries in Southeastern and Eastern Asia: South Korea, Taiwan, and the Philippines. These three countries are ideal for analysis because they have demonstrated very different degrees of economic performance and accomplishments, yet still share similar economic histories. All three countries share a history of colonization and of U.S. involvement. More importantly their economies have been greatly influenced by U.S. financial involvement and guidance (Cha, Cha and Kang, 2005; Olds; Philippines; Wu, 2005; and U.S. Secretary of State). Furthermore, these three countries can be considered “crony capitalist societies” – societies where success is based on close relationships between individuals and the state, and favoritism is evident. These similarities in the histories of the countries make them ideal for analysis by controlling for other effects that could influence our analysis of rent-seeking activity.

Aside from demographic differences, each country has its own distinct culture which sets it apart from the others and can allow rent-seeking to play out differently in each case. In the case of South Korea, the state has always played a very dominant and oppressive role towards interests groups and mobilizing forces. In addition, there is a lot of corruption and the South Korean government has acted in ways that benefit certain groups and classes over others (Choi, 1993; Haggard and Moon, 1993). Similarly, the Taiwanese government also chooses who the beneficiaries of reform will be, but there is the absence of oppression towards mobilizing forces (Hwang, 1991). In the Philippines, corruption and favoritism is also rampant but there are systems like the *residencia* – investigation and trial of an official at the end of his term – that

offer promising constraints on misconduct (Corpuz, 1965: 80-81; Steinberg, 1990). These different elements can influence rent-seeking behavior in many ways and open up many opportunities for exploration. They may also contribute to better understanding of what conditions create the perfect environment for rent-seeking activities to occur and why the levels of rent-seeking are different for each case.

In the analysis, privatization and trade liberalization will be examined as the different types of structural reform. Both privatization and trade liberalization are essential parts of market reform and can lead to drastic configurations of winners and losers. The qualitative aspect of the paper will incorporate literature and research from all three countries starting with a general economic and political history of the country, followed by an analysis of trade liberalization policy and the privatization process of the country and the rent-seeking opportunities that emerged as a result of each country's particular approach. Variables that will be examined in this paper will include: what kinds of reform policies were implemented, how the privatization process was implemented, how the state responded to interest groups that formed, and what the relationship between the state and the private sector was.

### **The Case of South Korea**

South Korea has a long history of alienating society from the state; there was a lot of repression of the working class and unionization (Choi, 1993: 13). During the Park regime in 1963, labor laws were amended so that labor unions had to obtain a 'certificate of report' to be legally recognized, unions could not participate in party politics, and state intervention in the internal and operational matters of labor unions were expanded in scope (Shin, 2003: 72). It wasn't until the late 1980s, during South Korea's transition to democracy that allowed organized labor to grow and formerly suppressed labor sectors started to organize, resulting in labor unions

and strikes (Heo and Roehrig, 2010: 80,89). Regardless, the South Korean government is still trying to find ways to contend with growing organizational forces. In the 1987 workers' movement, which was largely centered around political demands, the state-controlled media portrayed the workers as destructive and influenced by pro-communist infiltrators (Choi, 1993: 39).

Historically, the South Korean government and elites have behaved in ways that benefitted certain groups, particularly the rich and the large *chaebols* – large family conglomerates – at the expense of the poor and middle class. One example of this favoritism is the Chun regime's highly repressive tax system that taxed salary and wages at much higher rates than income from capital and land (Choi, 1993: 36). The relationship between the South Korean government and the private sector is a very dense and intricate one. The state has provided cheap loans and protected large industrial firms to promote growth and secure financial support for political objectives. State-business relationships have shifted to become specifically between a few *chaebols* chosen by President Park in the drive for heavy and chemical industrialization (HCI) (Shin, 2003: 83). In addition, in return for the benefits they receive from the government, the large South Korean firms have backed the government up on issues such as the control of labor movements (Haggard and Moon, 1993: 56).

It was hard for the South Korean government to develop a comprehensive and coherent liberalization policy that would satisfy all actors since *chaebols*, labor unions, ruling party, and opposition parties, all acted against economic reform to protect their own vested interests (Heo and Roehrig, 2010). South Korea implemented growth-oriented policies as part of its trade liberalization reforms and followed models of import-substitution industrialization (ISI) which

later developed into export-oriented industrialization (EOI). Thus there was strong focus and emphasis on exports and export volumes were used as a criterion for capital and funding.

The rationale for South Korea's privatization of public enterprises was to achieve productive efficiency. The latest government initiatives to privatization have been two-pronged and are concerned about: 1) deregulating public enterprises by granting them greater managerial autonomy and 2) allowing individual investors to purchase citizen shares in their ownership (Kim, Kim, and Boyer, 1994). Privatization in South Korea has occurred at a much slower pace than originally planned due to much opposition from labor unions. Privatization has been a very controversial topic in South Korea because unions fear layoffs by new management and some politicians have opposition to foreign ownership (U.S. Energy Information Administration, 2002). The resilient opposition to privatization has caused the Lee Myung-bak administration to use the term "modernize" rather than "privatize". In addition, in the face of strong opposition, the government is holding a public hearing and open forum for labor unions and civic groups to address their concerns (*The Korean Times*, 2008).

In cases where state enterprises had been privatized successfully, we see that they were bought up by the large *chaebols*. Since the *chaebols* had benefited from cheap loans by government banks and protection from the market, they were the only businesses financially capable of buying the government enterprises, leading to the expansion of their already tremendous size and influence.

### **The Case of Taiwan**

Similar to South Korea, the Taiwanese state also has a hostile, although not repressive, history towards labor and trade unions (Amsden, 1991). Important sources of political power, such as labor, students, landlords, and leftist forces, were either: crushed, displaced, or

incorporated into party organizations. In addition, labor unions were forced on both private-and public-sector enterprises and were state-created (Haggard, 1990: 81).

The success of the Taiwanese government's economic policies can be attributed to the fact that their policies were designed to be in congruence with the culture and traditions of the Taiwanese people. Economic policies were based on Dr. Sun Yat-Sen's ideology, with the five most influential being: 1) equal sharing among the people of the fruits of the economy, 2) private ownership of business and property, 3) preservation of the market functions, 4) institution of checking measures to prevent corporate monopoly of the basic life-sustaining materials and services, and 5) the government's responsibility to build infrastructures to enable continuing economic growth (Hwang, 1991: 59). Taiwan's firm belief in Dr. Sun Yat-Sen's ideology and Taiwan's ability to set professional standards for government elites made it difficult for interest groups to establish private connections with government. Performance conditions were not only attached to individual firms but also to Taiwanese government officials. Thus officials are also assessed in relation to performance indicators. If firms or industries can show that their ability to meet performance conditions, e.g. exports, is being impaired by corrupt officials, they have a second channel of recourse (Wade, 1993: 158).

Like South Korea, Taiwan also implemented a policy of import-substitution industrialization (ISI), later developing into one of export-oriented industrialization (EOI). Similar to South Korea, the Taiwan state favored certain firms although the firms that they favored were not as concentrated in size and power as the South Korean *chaebols*. Even after liberalization, subsidized credit was reserved for big businesses and this enabled those larger firms the ability to make out loans to smaller firms at higher interest rates (Amsden, 1991: 92).

During the ISI phase, firms would be able to lobby the government into granting them an exception to the import substitution policy but only after they had proven the import was necessary. The government would ensure that the firm is aware of what supplies are available in the country and once it is satisfied that the producer is fully informed, it generally will not block the import. If a firm made the case that they needed to import materials otherwise their international competitiveness would be impaired, either because specific material was not produced in Taiwan or was of lower quality, or the cost of inputs would be more than world market prices, the government would allow the exception (Wade, 1993: 153).

During the shift to EOI, export performance was used as a criterion for judgment. A firm's request would be seen more favorably if it had a good export record. Thus firm would be pressured to enter export markets or if they already were in the export market, try to find ways to export more to build up credit (Wade, 1993: 156). Subsidies were tied to export targets and firms were penalized if they fell short of these targets (Amsden, 1991: 93).

Privatization in Taiwan was undertaken for mostly the reasons of providing revenue for the government and making the state-owned enterprises (SOEs) more efficient. In many of the privatization of SOEs, employees were given priority shares in the stock; up to 35 percent of an enterprises' total capital was reserved for employees (McBeath, 1997:1151). Foreign investors involvement in the privatization and buying of shares was very restricted and limited (McBeath, 1997: 1151, 1160). The goal of privatization of SOEs was to reduce government shares to less than 50 percent, but as of 2002, many of the biggest SOEs still remain in government hands. The companies that have been considered legally privatized – government share is below 50 percent - still own stakes in big companies and continue to exercise their power by appointing top management and influencing companies (Dean, 2002: 43).

## **The Case of the Philippines**

Unlike South Korea and Taiwan, the Philippines has been more sympathetic to interest groups and organizational forces although contrary to the other two cases, the level of corruption in the Philippines is a lot higher. Liberalization and trade reform created a more conscious and vocal lobby based on small to medium-sized enterprises. The new open political framework also allowed economic actors to express and lobby for their interests within government (De Dios and Hutchcroft, 2003: 54). The majority of the Philippine regimes, aside from that of Fidel V. Ramos, were very corrupt and used their power for their own individual self-gain and those of their family and close networks (De Dios and Hutchcroft, 2003). This sent the message to economic agents that the ruling administration did not take liberalization and reform commitments seriously (De Dios and Hutchcroft, 2003: 62).

The economic liberalization program of the 1990s in the Philippines reduced high tax barriers and simplified the tax system but this also reduced the effectiveness of fiscal incentives. When the government tried to open the economy and promote competition, it was the same industries that had been protected by government and had received subsidies that were resistant to structural reforms and economic liberalization because of their dependence on protectionism (Gochoco-Bautista, Socorro, and Canlas, 2003: 119, 120). Some multinational firms that benefited from a protective trade regime threatened to reduce production levels or to discontinue local operations, always emphasizing that many workers would be laid off (Bautista, 1989: 39). There has been strong opposition from interests groups in the farming sector and the textiles, garments, and petrochemicals sectors. Opposition in the farming sector was strongly spurred by the influence of the farming sector on political elites and in the later sectors it was because these industries had previously enjoyed government protection (Tonzon, 2005).

During the implementation of ISI, family conglomerates became the leading segment of Philippine capital. An interesting factor to note is that Philippine conglomerates became divided more along family lines than that of any single economic sector. As a result of a lack of direction in the overall policy regime, family conglomerates could move in many directions to secure their wealth. Family conglomerates moved toward a more diversified mix of interests and there was more consensus on broader issues of economic policy and less evidence of sectoral disputes. Families would use their influence to gain particularistic favors than to seek generalized policy changes favoring any given sector (De Dios and Hutchcroft, 2003: 48).

The Philippines has approached privatization with much more eagerness and enthusiasm compared to other Asian countries. The urgency and need for privatization in the Philippines is directly illustrated in President Aquino's opening address before the Investment Conference in November of 1987 where she was quoted saying, "... we want cash at the barrel-head because that is what we need to fuel our economy and growth..... Our policy, let me repeat, is one of fairness... one of equality towards Filipinos and foreigners who wish to invest in the future of this country. The foreign investor is critical to our plans ... given the size of the foreign debt and the present general reluctance of foreign banks to engage in new lending... we need foreign investment and we have set the climate for it...." (Godinez, 1989: 267).

The objective of the privatization program in the Philippines was to reduce the budgetary burden of SOEs and to reduce the overall deficit (Godinez, 1989: 265, 267). The privatization program emphasized adherence to the requirements of objectivity, transparency, and equal opportunity for all qualified parties, whether Filipinos or foreigners. The privatization program was two-pronged and aimed at selling private state enterprises and disposing of almost 400 non-performing assets that had been transferred to the national government (Godinez, 1989). To

assist in the implementation of privatization, President Aquino created the Committee on Privatization (COP) and the Asset Privatization Trust (APT) (Godinez, 1989: 268).

Despite this illusion of commitment to privatization, the privatization process in the Philippines was in fact very slow and there were a number of barriers and problems that prevented the implementation of an effective privatization program. Some of those barriers included issues such as requirements that government owned and controlled corporations (GOCCs) should not be privatized if they are making money and that if an enterprise is losing money, it must first be “rehabilitated” before it can be privatized (Godinez, 1989: 278). In addition there were disputes raised by previous owners concerning the legality of the sales of properties (Godinez, 1989: 281). This slow pace of privatization has also caused critics to question the degree of political will and commitment of the Aquino government to privatize (Godinez, 1989: 280).

## **Conclusion**

Schamis’s framework appears to be proven true in the case of South Korea, Taiwan, and the Philippines although there are some differences in the way rent-seeking opportunities were opened. As Schamis argues, there is evidence that the power of the state is enhanced through the process of trade liberalization as the state needs to play a large and guiding, sometimes even directing, role in the process of liberalization. The trade liberalization processes of each country took the courses that it did based on not only the direction the government wanted to take it in but also on the large firms that resulted from government policies and favoritism.

All three economies implemented and started out their economies with import-substitution models and implemented protectionist measures. As a result, businesses more or less became dependent on protectionism. Although, it depended on the role of the government and

how trade policies and measures were implemented, for example, protectionism in Taiwan was enacted in a way that it would perform as a buffer and not to eliminate competition from international firms. In addition, South Korea and Taiwan governments were more repressive of labor and trade unions, therefore giving the impression of low tolerance for protests and the image of authority.

While the objective of this paper was to analyze market reforms in light of rent-seeking activities, from the analysis we can see that there are many other factors that play in and interact with market reforms and rent-seeking. For example, in South Korea, the close relationship between the South Korean government and the private sector created a dependency relationship and the South Korean conglomerates did not have to persuade the state very hard to keep their interests at heart. In Taiwan, we see that the Taiwanese reforms were very much based upon societal values and therefore were deemed to be reflective of the individual voices in Taiwanese society. In the Philippines, while there was rampant corruption, the diversification of Filipino conglomerates in many sectors, allowed them to substitute gains in one sector for their losses in another and therefore reduce their grievances as a result of reform. In addition, privatization and its success were crucial for the Philippine economy and thus the Filipino government needed to ensure that the privatization process would be seen as transparent and fair to appeal to all interested buyers.

From this study, it is apparent that in *any* type of reform, we should not just focus purely on reforming. In order to carry out successful reforms and to ensure that there is equality for and equal representation of all parties involved, we must anticipate and foresee the consequences of reform policies. If we want to have successful reforms that will benefit everyone in society, we must also take into consideration the rent-seeking opportunities that will arise and the

willingness of individuals to engage in those activities based on each particular case and situation. Unless we think about the consequences of reform and adjust how we reform, certain individuals and firms can become the main beneficiaries of reform, controlling the majority of resources and power.

Further extensions and development of this research that would be useful could incorporate a quantitative study that includes a measure of rent-seeking and applying the variables discussed here in a statistical analysis to determine the effect each variable plays on the amount of rent-seeking.

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## Notes

<sup>1</sup> The Washington Consensus was developed in 1989 to assist Latin American countries that were trying to implement market reforms. The ten policy recommendations it proposed are as follows: 1) fiscal policy discipline, 2) redirection of public spending from subsidies, 3) tax reform, 4) market determined interest rates, 5) competitive exchange rates, 6) trade liberalization, 7) liberalization of inward foreign direct investment (FDI), 8) privatization of state enterprises, 9) deregulation, and 10) legal security for property rights. For more on the Washington Consensus, see Williamson, John. 2005. "The Strange History of the Washington Consensus." *Journal of Post Keynesian Economics*, Vol. 27, No. 2 (Winter): 195-206; and Global Trade Negotiations Home Page. 2003. "Washington Consensus." URL: <http://www.cid.harvard.edu/cidtrade/issues/washington.html>.

<sup>2</sup> Tragedy of the commons is a term used to describe situations where individuals are acting rationally *individually* according to their own self-interests, but *collectively*, they are acting irrationally. The term is usually used in association with public goods and the depletion of shared resources. For more on the tragedy of the commons, see Library of Economics and Liberty. Hardin, Garrett. 2008. "The Tragedy of the Commons." URL: <http://www.econlib.org/library/Enc/TragedyoftheCommons.html>

<sup>3</sup> Two classical models regarding free trade and its effects are the Stolpher-Samuelson model and the Ricardo-Viner model. For more on the two models, see Rogowski, Ronald. 2000. "Commerce and Coalitions: How Trade Affects Domestic Political Alignments." In *International Political Economy: Perspectives on Global Power and Wealth. Fourth Edition*, eds. Jeffrey A. Frieden and David A. Lake. Belmont: Thomson Wadsworth; and Alt, James E. and Michael Gilligan. 2000. "The Political Economy of Trading States: Factor Specificity, Collective Action Problems, and Domestic Political Insitutions." In *International Political Economy: Perspectives on Global Power and Wealth. Fourth Edition*, eds. Jeffrey A. Frieden and David A. Lake. Belmont: Thomson Wadsworth.