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MSMEs (Microsoft, Small and Medium Enterprises) and Democracy, a Panel Data Model

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Approval of the Dissertation Committee

This dissertation has been duly read, reviewed, and critiqued by the Committee listed below, which hereby approves the manuscript of Simon Tang as fulfilling the scope and quality requirements for meriting the degree of Doctor of Philosophy in Political Science**.**

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Abstract

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This paper focuses on different national economic development structures, such as micro-small-medium-enterprises (MSMEs) vs. big or state-owned enterprises and their relations with political development. A well-established literature argues that MSMEs are conducive to economic growth. Existing literature does not tell us much about the relationship between MSMEs and democracy. This dissertation examines the relationship between economic development structure and democracy. I demonstrate that we observe a negative correlation between high concentration of MSMEs and political development in the early stages of a country's economic development (pre-takeoff or takeoff states stages), ceteris paribus. I provide a theoretical framework and causal mechanism that link MSMEs to limited political development due to collective action problems in a decentralized economy. This collection action problem encourages corrupt transactions between MSMEs and government officials that undermine prospects for functioning democracy. I use extensive quantitative analysis and detailed case studies to explain the mechanisms whereby MSME's appear inimical to democratic governance, and under what conditions MSMEs may advance democratic decision-making.

Table of Contents

Introduction:

This paper contributes to the discussion of economic development and democracy by evaluating two major questions. First, what is the relationship between micro-small-medium-enterprises (MSMEs) and democratic development? Second, through what mechanism do MSMEs impact democratic development in LDCs[1]? The relation between MSMEs and democratic development has remained largely unexplored by academia. The closest related subject and a central question in political and academic debates about international political development is the relation between democracy and corruption. Corruption problems among countries over the past decades form one of the most formidable challenges to economic policymakers in both developed and developing countries. However, as will be demonstrated later in this paper, the corruption problem, with its corollaries of political stability and political capacity, has a significant connection to the strength of a country's MSMEs.

Existing research and data on MSMEs are extensive; however, they mostly concentrate on the linkage between the power of MSMEs and economic development. For instance, many academic studies have explored the relationship between the relative size of the MSME sector, economic growth, income inequality, and poverty alleviation. Most of them discover a positive association between the importance of MSMEs and GDP per capita growth. However, they find no evidence that MSMEs alleviate poverty, or decrease income inequality (Beck, Demirguc-Kunt and Levine). A corollary question to this research is: if MSMEs are conducive to economic development, do they encourage political development as well? How do MSMEs fit in to the nexus of modernization theory and the classic literature on types of development and modernization? This dissertation focuses on these core questions.

[1] The term LDCs is defined in this paper as Less Developed Countries. Based on World Bank GDP per capita standards, Lower-middle countries ($950 to $4,530 GDP per capita), and Upper-middle countries ($4,530 to $11,600 GDP per capita), in year 2010's American dollar value. This is the focus of this paper.

As a result, this research explores the relationship between democratic development and the strength of MSMEs in LDCs. My central theoretical claim is that collective actions problems amongst MSMEs make them a weak collective political actor, and thus encourage them to engage in corrupt relationships with the government to advance their individual goals. The weakness of the decentralized business sector keeps them from holding LDCs governments accountable, and encourages them to defend their individual interests through corrupt transactions. Both causal mechanisms weaken democratic development (Olson, 1971).

This research is innovative because conventional understandings of democratization and the structure of business relations would suggest that higher numbers of MSMEs should be linked to a higher likelihood of democratization, through the mechanism of collective action. Conversely, large companies and state enterprises are expected to collude with the government to maintain the status quo. While the decentralization and diversity of MSME's will limit their use in suppression, and may provide support for opposition positions that hold the government accountable. Further, based on inferences from modernization theory, some scholars argue that the more state owned enterprises and giant private corporations a country, especially an LDC, has the higher the chances that those big businesses will collaborate with the ruling government to suppress disruptive spontaneous social and political movements (Cammett 2006 ; Arriola 2012). On the other hand, once democratization begins, opposition forces can use the relationship between relatives and friends, from the small and medium enterprises to easily mobilize political, economic, and human resources. It is also because of the profits of these MSMEs need not rely on the government's privileges, their economic interests and political ideals will not conflict with each other and the people. In essence, they argue that MSMEs are essentially economically independent of the government and so do not rely on cooperating with

it for economic gains. To summarize, due to the large number of MSMEs with their overall economic influence, they become the object of various political forces, and thus increase the diversity of democratic competition (Kuo, 1994). This is the established theoretical assumption that this paper aims to test and disprove, thorough robust empirical analysis.

In contrast, Ansell and Samuels (2014) argue, based on Olson's Logic of Collective Action (1971) that a small minority have both the means, and the motive to control government to impose their interests upon society. In most LDCs, this small minority has often been landed elites that control agricultural production. This small coalition of elites do not fear threats from the poor, but from relatively wealthy, and organized yet relatively disenfranchised groups which want to live free from fear of state predation.[2] This emerging group typically makes their money from capital or industrial pursuits and includes actors from MSMEs and larger enterprises. These actors seek to wrest control of government from landed elites who may seek policies (such as liberalism or protectionism) that the industrial sector does not prefer, or attempt to extract profits from industry without providing fruitful public goods. From this perspective, MSMEs should be advocating for democracy through which they can best play a role in government decision-making.

However, for any political movement to start, members of a disenfranchised group must balance the individual cost of joining, against the overall group costs for organizing. Groups that find collective action easier will have lower costs of organization both in total and per member. MSMEs in LDCs may be in a very weak position to hold the government accountable under democracy because they have both high individual and group costs. Thus, although MSMEs

[2] Ansell and Samuels specifically challenge the argument of Acemoglu, Johnson and Robinson (2006) that economic elites most fear the revolutionary threat of the poor.

want more control of government decision-making vis a vis traditional elites, along the lines described by Ansell and Samuels, they may not have the collective action capacity to use democracy to their advantage.

This paper argues that, under these circumstances, either MSMEs do not have the power to push the landed elites to introduce democratic institutions, or once in place they do not have the collective power to hold governments accountable. Accordingly, individual MSMEs seek other means to get their way from government, most notably through corrupt transactions. Under these circumstances, corruption is an individually rational, least worst strategy for MSMEs seeking public goods from government and attempting to avoid predation that could put them out of business.

Importantly, studies show that those disenfranchised MSMEs in LDCs hold strong anti-corruption preferences (IFC 2013; UNDP 2012).[3] This is because their status as regime outsiders excludes them from existing patronage networks, makes them the most frequent targets of bribes by government officials, and because such corruption often threatens their very survival as businesses. Despite this, corruption is the cost of doing business in many LDCs. As a result, it stands to reason that if MSMEs can solve their collective action problems to join collectively and hold the government accountable for the provision of public goods and government policy, they would prefer democracy without corruption.

Despite their economic significance and their strong anti-corruption preferences, the political behavior of the non-elite owners of these private-sector MSMEs has received little attention from scholarship on authoritarian politics and policy making. Yadav and Mukherjee in

[3] United Nations Development Program (UNDP). 2012. World Economic and Social Survey 2012: In Search of New Development Finance. New York: United Nations. International Finance Corporation (IFC). 2013. SME Banking Knowledge Guide. Washington DC: IFC.

their 2016 book demonstrate that the preferences and actions of owners of MSMEs play an extremely important role in the issue of corruption in autocracies. Private MSME owners face considerable obstacles in mobilizing individually or *collectively* to demand anti-corruption policies and legal protection against other forms of political exploitation. This paper will demonstrate via empirical evidence that LDCs that have an economic structure composes mostly of MSMES have more corruption, less political stability, tougher government suppression, and consequently less democratic political development.

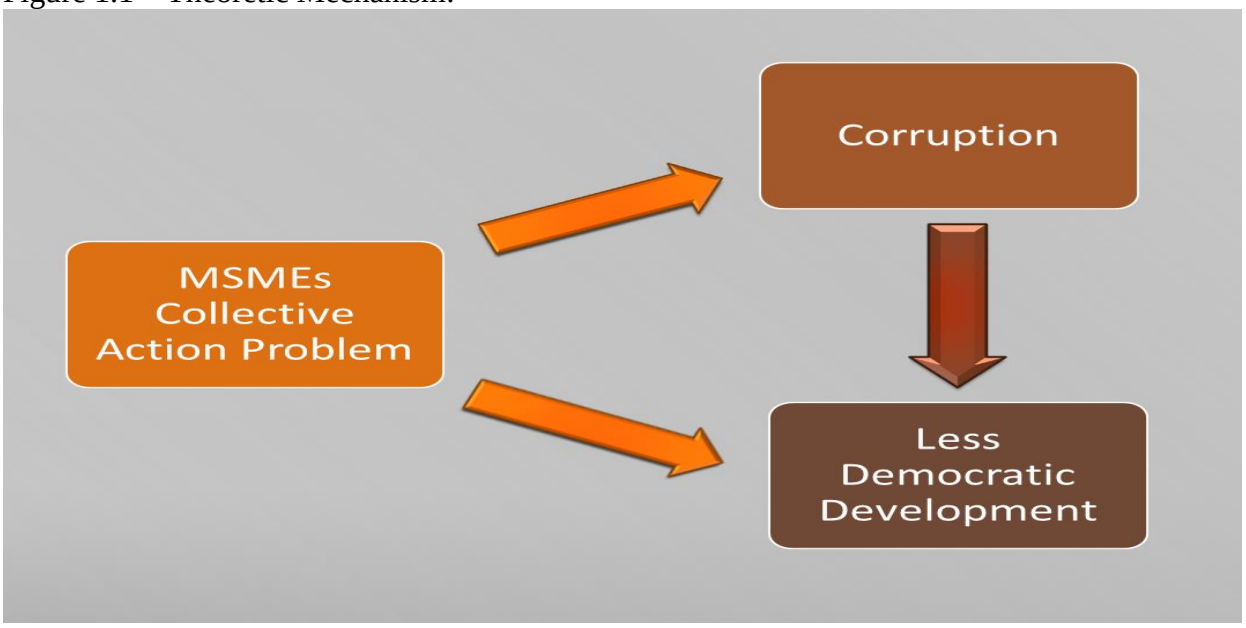
The negative link between MSMEs and democracy raises a paradox. While we observe consistently that greater economic development is linked to higher levels of democracy, why would MSMEs, which are strongly associated with higher growth, lead to less democracy? From the 1980s "developmental state theorists" became the center of debates in academia (Huntington and Nelson, 1976). Moreover, the wave of democratic development of the "third wave" (Huntington, 1993) since the mid-1970s has forced social scientists to once again think about the relationship between democracy and economic development.[4] Fukuyama argued that most authoritarian regimes in the past have fulfilled their historic tasks and laid a good economic base for later democratization. For developing countries, Fukuyama stressed the importance of the establishment of stability, government capacity, and nation building to lay the foundation for an economic take-off. Once those three foundations are in place, a country with a stronger economic base will subsequently demand more democracy. It is through this long route that a stable and prosperous democracy will eventually emerge with citizens receiving what they want from government. In contrast, Huntington (1963) and Muller (1995) argued that that democratic development is not appropriate in the early stages of a country's economic development, and that

[4] According to Wolfgang Sachs, a post-developmental theorist, and a leading member of the post-development school, "the idea of development stands like a ruin in the intellectual landscape" and "it is time to dismantle this mental structure."

it may even aggravate not only its economic development but also income distribution process. This current research trend, in fact, combines elements of modernization theory and strategic interaction theory, and supports the development of state theory on the "first development, and then democratic development" argument. In that vein, by setting aside the unsettled debate on the relation between economic growth and democratic development, my analysis will focus specifically on MSMEs and political development (rule of law, government capacity, corruption, political stability, and democratic development) and offer some new insights on them.

This paper provides a theoretical framework and causal mechanism that link MSMEs to limited political development due to collective action problems in a decentralized economy. This collective action problem encourages corrupt transactions between MSMEs and government officials that undermine prospects for functioning democracy. Such a causal mechanism weakens democratic development as demonstrated by Figure 1.1. I use extensive quantitative analysis and detailed case studies to explain the mechanisms whereby MSME's appear inimical to democratic governance. At the end, it provides a viable solution by demonstrating that the presences of a national business association organized by MSMEs will incentives autocratic elites to curtail corruption. Such a mechanism also applies to the collective power of SME associations for organized actions for demand for democratic reforms.

Figure 1.1—Theoretic Mechanism:



Theoretic Framework

The main theme of this paper is that several issues arise as a result of the collective action problem faced by MSMEs in LDCs. Including, the problem of corruption, the relative power of governmental oppression, a lack of political stability, and eventually, a delay in democratic development. This paper examines these hypotheses in relation to MSMEs and their collective action problem.

Hypothesis 1: For LDCs, the more micro, small and medium enterprises (MSME) a country has as its main economic development force, the lower the level of democratic development will be.

Hypothesis 1A: For LDCs, the more MSMEs a country has as its main economic development force, the lower the level of political participation.[5]

Hypothesis 1B: For LDCs, the more MSMEs a country has as its main economic development force, the lower the level of political contestation.[6]

Hypothesis 2: For LDCs, the more MSMEs a country has as its main economic development force, the more serious their corruption problem will be. This paper argues this increase in corruption is a result of MSME's weak collective action.

Hypothesis 3: For LDCs, the more serious the problems of corruption and government oppression, which represent the problems of MSMEs in articulating their collective interests from government, the lower the level of democratic development. In essence, this paper aims to demonstrate that it is through the problems of weak collective action, MSMEs have a negative impact on LDCs' democratic development. Since the measurement of levels of democracy is a contested issue, to test the last hypothesis, this paper employs an array of reputable and well-accepted democratic indexes which will be enumerated in a later chapter.

[5] Participation is defined as ''in the proportion of the population entitled to participate on a more or less equal plane in controlling and contesting the conduct of the government. . .'' (Dahl 1971).
[6] There is *contestation* when citizens ''have unimpaired opportunities. . . 1. To formulate their preferences, 2. To signify their preferences to their fellow citizens and the government by individual and ***collective action***, 3. To have their preferences weighed equally in the conduct of the government . . . '' (Dahl 1971).

Literature Review

There are many examples of autocratic countries which have achieved high levels of economic development, and growth without developing toward democracy. Bruce Bueno de Mesquita and Anthony Downs argue that greater wealth alone does not automatically lead to greater political freedom. Authoritarian regimes around the world have shown that they can reap the benefits of economic development while evading any pressure to relax their political control. They argue that economic growth, rather than being a force for democratic change in tyrannical states, can sometimes be used to strengthen oppressive regimes. They point out that development theorists may have underestimated the ability of oppressive governments to thwart their citizens' demands for political participations. Authoritarian regimes are getting better and better at avoiding the political fallout of economic growth—so good that such growth now tends to increase rather than decrease their chances of survival (Mesquita 2003). China's strong and persistent economic growth in the past 40 years, with the help of advanced surveillance technologies on most aspects of civilian lives has added supports to this school of rational choice approach. For a rich and modernized autocratic nation like the People's Republic of China (PRC) to counter citizens' demand for openness and self-expression requires not only positive reinforcement such as high economic growth, but also coercive and repressive actions by unified and efficient civil and military institutions. In most authoritarian regimes, rational politicians distribute private goods—such as plum jobs and access to scarce goods and services—to their elite supporters rather than the public at large. In the words of Bueno de Mesquita: "bad policy is good politics" for authoritarian leaders (2003). If autocracies were more likely to occur in poor countries and democracies in wealthy ones, it could be that political regimes are endogenous with regard to economic development (Przeworski 2003; Boix & Stokes). If MSMEs are conducive to

economic growth (Beck, Demirguc-Kunt and Levine), what is the relations between MSMEs and regime type?

Samuel Huntington proposes an alternative explanation of the development of democracy from the perspective of "process" arguing that the outcome of economic development would lead to political decay; the resulting political instability would then cause a move toward democracy (Huntington, 1968). Huntington states that "The most important political distinction among countries concerns not their form of government but their degree of government." (1968, p.2) Along that vein, what is role of MSMEs in effecting the form and *the degree of government*?

According to Acemoglu and Robinson (2006), democracy in an autocratic regime is more likely to emerge when the level of social unrest cannot be placated by limited concessions from the ruling elites. Furthermore, this shift is closely associated with the economic conditions of the citizens, the strength of civil society, and the nature of the *collective action* problem facing the citizens. If the ruling elites do offer concession to its citizen's demands, how credible is their commitment to reform? If the cost of democratization for the elites is acceptable, so that they are not tempted to use oppression to deal with discontent, how long will those commitments last? Similarly, these factors also influence how likely democracy is to survive once it is established.

In a similar vein, do MSMEs as a group have a collective action problem? If so, what are the sources of the problem? This paper argues that the sources stem from the repressive environments of autocracies, which limit freedoms of information, assembly, and association, and from free riding that exacerbates their collective action problems. MSMEs, due to their diverged interests and lack of concentration are easy targets for autocratic oppression and extortion by government officials. One can further argue that before a country's take-off stage,

MSMEs are often its main economic driving force; these nascent and divergent businesses need a strong and *centralized* government for support, protection, sponsorship, and even favorable treatment, and consequently make fewer demands for political rights. Ansell and Samuels argue that regime changes often result from the rise of intra-elite conflict, between a group that controls the political decision-making and other relatively *wealthy* groups that do not. Groups that find collective action easier will have lower costs of organization both in total and per member. As a result, solid collective movements are more likely to emerge from smaller, geographically concentrated, wealthier groups with more homogenous and connected interests such as the ruling elites, and disenfranchised but rising economic players. Based on this observation, this paper argues that MSMEs are unlikely to overcome barriers to collective action, unless they form a national association and establish connections with established power centers, or become a unified force versus the ruling elites. Without this, they will stay outsiders in the political arena and they will not be able to solve the problems that constantly plague them, such as corruption and political oppression. Consequently, they may be capable of mobilizing disorganized protests against local government but not enough to form a credible threat to major political and other economic players so as to force accommodation to their demands. [7] These movements may lead to political instability but they neither incentivize the ruling elites to relinquish control of the regime and grant partial democracy "from above", nor do they incentivize the rising bourgeoisie to collaborate with them to rebel and impose partial democracy "from below". To summarize, this paper argues that the key political struggle occurs among relatively wealthy competing

[7] An estimated 65 percent of the 180,000 annual "mass incidents" in China stem from grievances over forced land requisitions, whereby government authorities—often in collusion with private developers—seize land from villages with little to no compensation. Since 2005, surveys have indicated a steady increase in the number of forced land requisitions. However, they resulted in very few government's concessions, stated Elizabeth Economy in 2012.

economic elites. In stark contrast, MSMEs with their poor collective power rarely play a relevant, if not counter-productive role to a country's political development.

Another debate that this paper seeks to address is the median voter theorem. Its main assertion is that the democratic processes shift political power away from the rich toward the middle income groups, ultimately resulting in a relatively even distribution of wealth (Sirowy and Inkeles 1990). A skeptical school claims the relationship between democracy and income equality is spurious. In other words, after the level of economic level is controlled, the effect of democracy on income distribution will disappear (Nelson 1987; Acemoglu, Naidu, Restrepo, and Robinson 2015). Simply stated a low income democracy may take a different position on income distribution than a medium or high one; consequently, blurring any distinctive role in income distribution played by the different levels of democratic development. Finally, the Marxist school downplays the significance of democratic development in income equality and focuses instead on class conflict. It considers political the system to be a superstructure of a nation, as soon as the relative strength of capital versus labor is controlled, any systematic relation between political systems and income distribution should disappear (Ledbetter 2007). To recap, since this paper has chosen a topic that few if any previous researches have addressed, it has little recourse but to rely on its own theoretical design, quantitative analysis, and qualitative reasoning to link these elements together. Ultimately it demonstrates that there is a negative correlation between MSMEs and democratic development, and that it is through the problems of corruption, political instability, and government suppression that the former has a negative impact on the latter. Each individual independent variable forms neither a necessary nor sufficient condition for a LDC's democratic development; it is only through their combined

impact that MSMEs can be linked to the limited democratic development in LDCs. What is the driving force behind the mechanism? This paper's answer is collective action.

Chapters Summary

The outline of this dissertation chapters are as follows: In Chapter one, I will examine Hypothesis One—for LDCs, the more micro, small and medium enterprises (MSME) a country has as its main economic development force, the lower its level of democratic development. This chapter will explain and justify the approach and explore the proposed model. It will also explain why the research results are important both to current academic researches and explore the real-world implications of these findings. This chapter, in essence, investigates three hypotheses with three models. The first model employs *democ* with its values derived from Polity IV—Institutionalized Democracy (Range: 0 to 10) as the dependent variable. However, current scholars (Coppedge, Alvarez, and Maldonad) argue that what Polity, Freedom House, and other indicators of democracy are actually measuring is the two dimensions of democracy that Robert Dahl proposed in Polyarchy—*contestation* and *inclusiveness (participation)*. [8] Therefore, this chapter will apply two separate sub-models to examine the relation between these two dimensions of democracy and MSMEs.

Chapter two will conduct various quantitative analyses on the relationship between MSMEs and corruption; corruption and political development; and MSMEs and democratic development. It aims to demonstrate that MSMEs due to their divergent interests and lack of concentration of power are easy targets for bribery and extortion from both central, but more often local

[8] Data on democratic *contestation* and *inclusiveness* are based research by Michael Miller. https://sites.google.com/site/mkmtwo/data The data cover the range from 1800 to 2015.

governments (*Hypothesis Two*).[9] This chapter aims to examine this research question: Is there a correlation between the level of corruption in LDCs and their democratic development? If so, through what mechanism do MSMEs impact LDCs' corruption level? The corollary questions to this are why has corruption declined in some but not other autocratic regimes, and why do elites in an autocratic regime take genuine steps to confront corruption issues while other autocratic elites remain indifferent to epidemic corruption problems? This chapter argues that the MSMEs' collective action problem works through the intervening variable of individual members engaging in corrupt actions. If so, what measure can resolve this collective action issue? A reasonable suggestion is that disenfranchised members of MSMEs can induce the elites to make credible commitments for curbing corruption only under conditions that facilitate collective action. Finally, this chapter aims to examine a mitigating factor to MSMEs collective action problems. It demonstrates that the presences of a national business association organized by MSMEs will incentivize autocratic elites to curtail corruption. To support that argument, this chapter conducts extensive quantitative analyses to examine the collective impact of high concentration of MSMEs and National MSME associations on various democratic indexes.

To support chapter two's arguments, chapter three conducts a case study contrasting MSMEs and democratic development between South Korea and Taiwan (Republic of China), and China (People's Republic of China). This paper selects South Korea and Taiwan mainly based on the guideline provided by Gerring and Lieberman, and employs them to articulate the underlying theoretical mechanisms. South Korea provides a case that supports the empirical findings for Hypotheses One—that a lower MSME historical index is likely lead to

[9] Hypothesis two: For LDCs, the more MSMEs a country has as its main economic development force, the more serious their corruption problem.

democratization for LDCs. In contrast, Taiwan is a case that explores what might make Taiwan different from the average results found in empirical analysis. This chapter provides a plausible explanation for such an outlier. [10] Also by adhering to the guidelines provided by Gerring and Lieberman, this chapter chooses China to serve as a critical case study. [11]

Chapter four briefly recaps the research questions, theory, findings, and then policy implications. It will highlight the importance of the issues involved and their power of prediction in countries' political developments. In conclusion, a mix of qualitative and quantitative approaches is well justified for these questions; otherwise, how would we ever know whether our "impeccable" qualitative logic is supported by reality or quantitative analysis has any in-depth and real-world applicability? This chapter emphasizes the policy implications of all the empirical findings, and offers some suggestions for policy decision-makers on the domestic and international levels.

[10] Since this paper's data source World Bank's MSME Country Indicators—Historical Data uses the term MSME (https://finances.worldbank.org/Other/MSME-Country-Indicators-Historical-Data/xajb-umcc), previous two chapters in this paper follow its convention. However, most scholarly works on national economic development use the term SME; therefore, this chapter adopts it accordingly. In essence, they both refer to the same thing with different definitions. World Bank's data list different definition of MSME for each country while Taiwan, South Korea, China define SME as a firm that employs from 20 to 250 employees.

[11] Please refer to the *case-selection typology* section in the appendix. Following the typology of Gerring and Lieberman, South Korea serves as *conforming case*; Taiwan serves as a *deviant case*; and China serves as a *crucial case*.

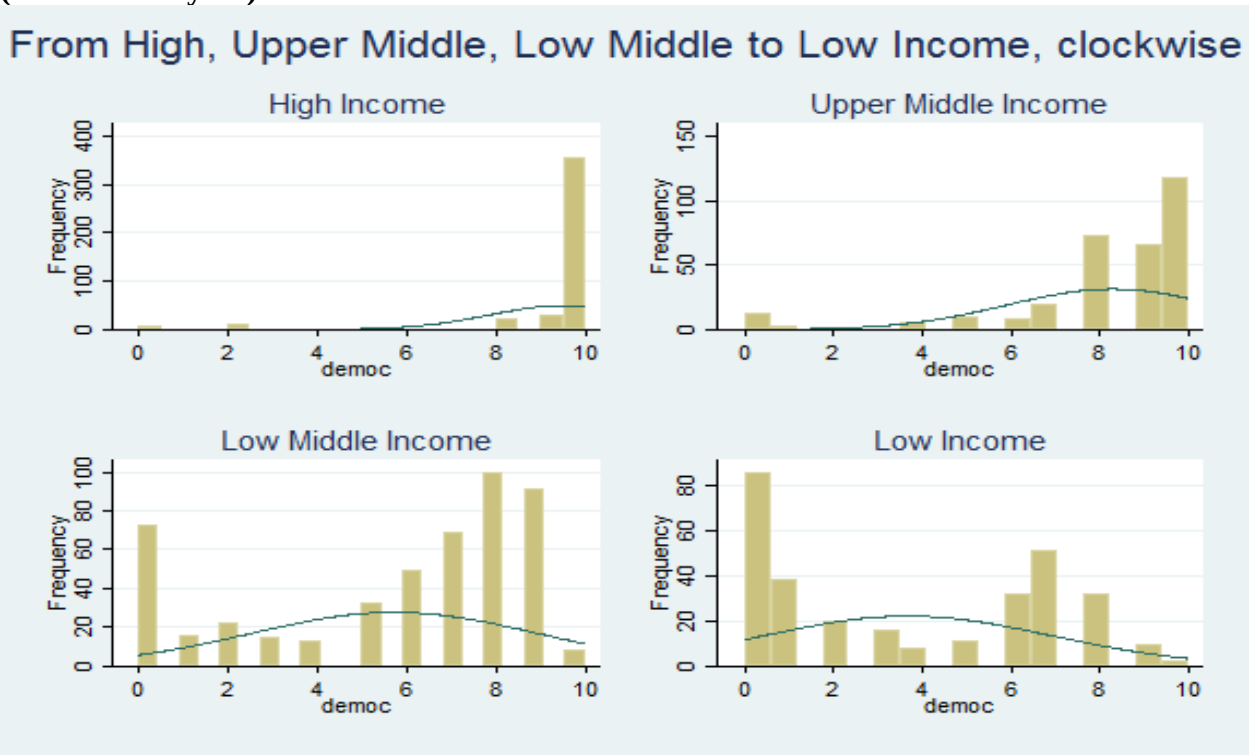
Chapter One—MSMEs and Democratic Development

This chapter lays the foundation for the new theoretic framework proposed in this paper. It first adopts panel data analysis to include as many countries and annual data as available. Panel data, by blending the inter-individual differences and intra-individual dynamics have several advantages over cross-sectional or time-series data: Panel data usually contain more degrees of freedom and more sample variability than cross-sectional samples, hence improving the efficiency of econometric models. Panel data contain information on both the inter-variable and temporal dynamics and the individuality of the entities and thus allow one to control the effects of omitted variables (Hsiao, 2014). Finally, compared to aggregated data, panel data is ideal for investigating the "homogeneity" versus "heterogeneity" issue (Granger, 1990).

However, there are a few cautions against panel data. Since panel data involve at least two dimensions, a cross-sectional dimension and a time series dimension; many time-invariant variables may severely skew the results (Beck and Katz). For example, the democratic levels of some OECD countries have not changed since any data of dependent or independent variables were available. Figure 1.2 demonstrates this point vividly. The high income group with time-series data reveals that almost all observations concentrate on level 10 of the democratic index; therefore, this chapter addresses this problem by conducting panel data analysis not only on the combined observations but also with data of subsets based on income level. This chapter justifies for the rest of the paper, the decision to *exclude* advanced industrial democracies from the sample due to the fact they reached a higher level of development before my MSME data starts (1985), and also are invariant on their historical democratic development (1985-2015). Other time-invariant variables such as geography (African country or not), cultural (Confucian or not), and religion (Muslim or not) should be treated with extreme caution. For this reason, this paper

avoids using dummy variables that are related to those categories. Also, any panel data study has a limited predictive power as opposed to a time-series model which often concentrates on one single unit such as a country and its history. For instance, just because the panel model is valid for a set of countries for a certain range of periods, one should not extrapolate the correlations to countries that were excluded in the sample or periods that are outside of the range. At best, it serves as a good inference point for predicting other countries' future development.

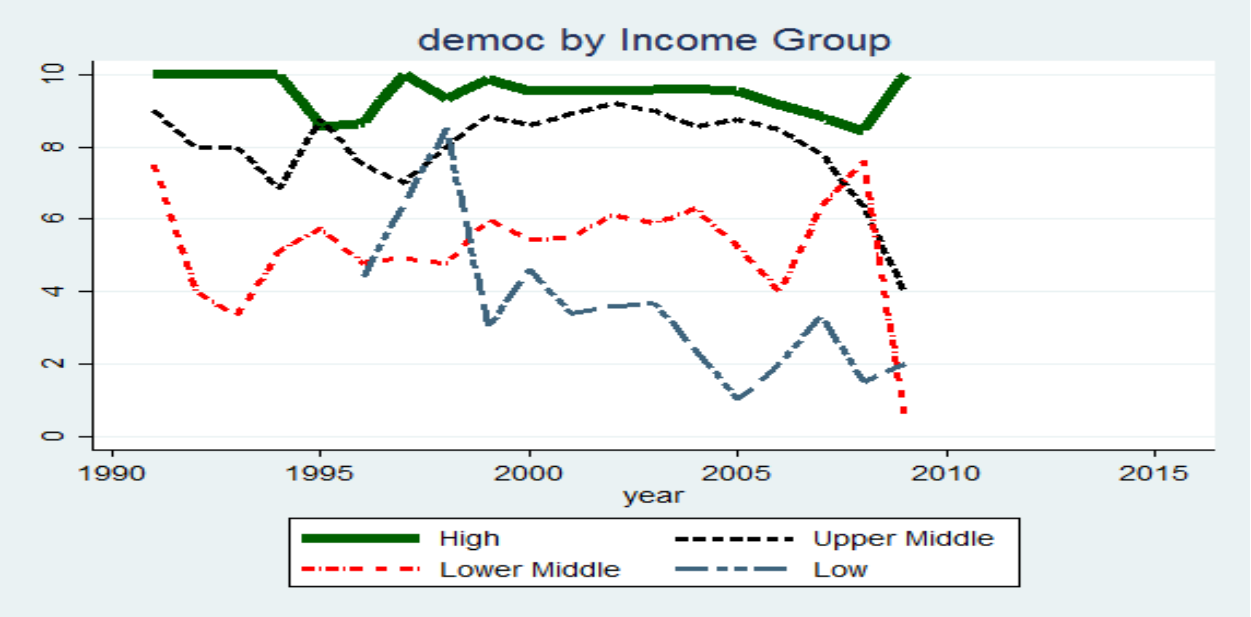
Figure 1.2 and 1.1a: The Democratic Level in Countries with Different Income Levels (Source: Polity IV)



12

[12] The income groups are based on World Bank's standard , High Income countries ($11,670+), Upper-middle countries ($4,530 to $11,600 GDP per capita), Lower-middle countries ($950 to $4,530 GDP per capita), and Low income countries ($150 to $950) in *year 2010's American dollar value*. This is the focus of this paper.

Figure 1.2a:



1.1 Hypothesis:

This chapter proposes the following hypothesis:

- Hypothesis 1: For LDCs, the more micro, small and medium enterprises (MSME) a country has as its main economic development force; the lower level of its democracy.
  - Hypothesis 1**A**: For LDCs, the more micro, small and medium enterprises (MSME) a country has as its main economic development force; the lower level of its democratic participation (inclusiveness).
  - Hypothesis 1**B**: For LDCs, the more micro, small and medium enterprises (MSME) a country has as its main economic development force; the lower level of its democratic contestation. [13]

[13] Data on democratic *contestation* and *inclusiveness* are based research by Michael Miller (https://sites.google.com/site/mkmtwo/data).

This chapter, for the sake of comparison, will apply three models. The first model uses mean values for all variables to conduct a simple OLS analysis. The second model, after investigating the result of a Hausman test, will apply *fixed effects panel data analysis*. To provide robustness checks and overcome the possible biased and inconsistent results in the presence of endogeneity in the fixed effects model, the third model implements an Arellano-Bond general-method-of-moment (GMM). This chapter will demonstrate, at the end, *fixed effects panel data analysis* as the most appropriate model to analyze subset's data based on income level. The general equation of this study is as follow:

$$\textit{Hypothesis one: } democ_{it} = \alpha_{it} + \beta\, msme\_1000_{it} + \gamma\, Z_{it} + \varepsilon_{it}$$

where the subscript *i* indexes individual country; the subscript *t* indexes years; $democ_{it}$ is our measure of democratic level; $msme\_1000_{it}$ is our measures of MSME level; the vector Z_{it} includes dichotomous indicators for each year and, in many specifications, the control independent variables; α, β, and γ are parameters to be estimated; and $\varepsilon\, it$ is an additive error term. The coefficient estimates of β in the equation indicate whether and to what extent individual country's *democ* index are correlated with the theoretic variable *msme_1000*. This chapter chooses the "development state theory" as a base of analysis; therefore, it expects *msme_1000* to be negatively correlated with the dependent variable *democ*, especially for LDCS—the central hypothesis of our empirical analysis. Thus, our null hypothesis is that $\beta = 0$, with the alternative hypothesis that β is *less* than zero.

1.2 Data Description and Empirical Specification

The values for the variable *democ* are from Polity IV—Institutionalized Democracy (Range: 0 to 10). Data on democratic contestation and inclusiveness are based on research by Michael

Miller.[14] The observations for the variable GINI index are from World Bank 2017 Estimate. [15] The values for the theoretical variable *msme_1000* are from World Bank's MSME Country Indicators—Historical Data.[16] It stands for the number of MSME firms per 1,000 people in a country—the higher levels mean more concentration. To take into consideration potential lag factors, the values for each observation were calculated using the following formula: the revised *msme_1000 = (l.msme_1000 * 2 + msme_100)/3.*

There are five other control variables. From Penn World Table 7.0, this paper collects rgdpch (PPP Converted GDP Per Capita based on Chain Series, at 2005 constant prices, *Investment (ci), and Trade (openc*). The *growrate* variable is calculated by the difference between the *rgdpch* of targeted year and its previous year' *rgdpch* divided by last year's *rgdpch*. [17] From Cross National and Time Series data set, this chapter uses *domestic4*—government crisis—as a measurement of political stability. This chapter also uses *human development index* (HDI) from the UN Human Development Report as a combined indicator for education, life span, and gross national income. It further conducts statistical test on issues related to multicollinearity, autocorrelation, endogeneity, and heteroscedasticity as will be demonstrated in the later sections. For each variable, Table 1.1 provides summary statistics.

[14] https://sites.google.com/site/mkmtwo/data
[15] https://data.worldbank.org/indicator/SI.POV.GINI. The range is from 13.59 to 65.8
[16] https://data.worldbank.org/data-catalog/xajb-umcc. It includes 131 countries from 1990 to 2010. The data is unbalanced with missing data for some years' data for some countries.
[17] growthrate=Δrgdpch/rgdpch (lag 1)

Table 1.1: Summary of Statics for Variables:

Variable	Observation	Mean	Std. Dev.	Minimum	Maximum
democ	7,981	4.3046	4.19	0	10
MSME_1000	742	31.51	28.055	0.122	206.31
openc	8,392	76	49.12	2.635	453.44
domestic4	8,635	0.156	50.23	0	7
gni_per_cap	724	12,839	14,586	150	81,600
hdi	4,130	0.654	0.165	0.194	0.949
growthrate	8,188	0.024	0.07	-0.646	1.222
ci	8,392	23.78	11.65	-15.82	117.35
gini	944	0.3956	0.1211	0.02	0.9

As a reference, Graph 1.1 demonstrates the general distribution of the average values by country of *democ* and *msme_1000*. The italic and unlined numbers are values of msme_1000, and the numbers below them are values for democ. The color for each country is determined by its msme_1000 value. Figure 1.3 reveals the preliminary investigation of the correlation between democ and msme_1000 by income level. We see no obvious pattern of relation between democ (DV) and msme_1000 (theoretical IV), even the fitted lines change for each income group; therefore, it warrants some further statistical analysis. For both hypotheses, this chapter analyzes the following three models:

1. A simple OLS regression model using mean values for variables.
2. A panel data, fix effects regression model based on Hausman Test's result.
3. An Arellano-Bond general-method-of-moment (GMM).

Graph 1.1: msme_1000 and Institutionalized Democracy Index by mean values *(in italic and underlined):*

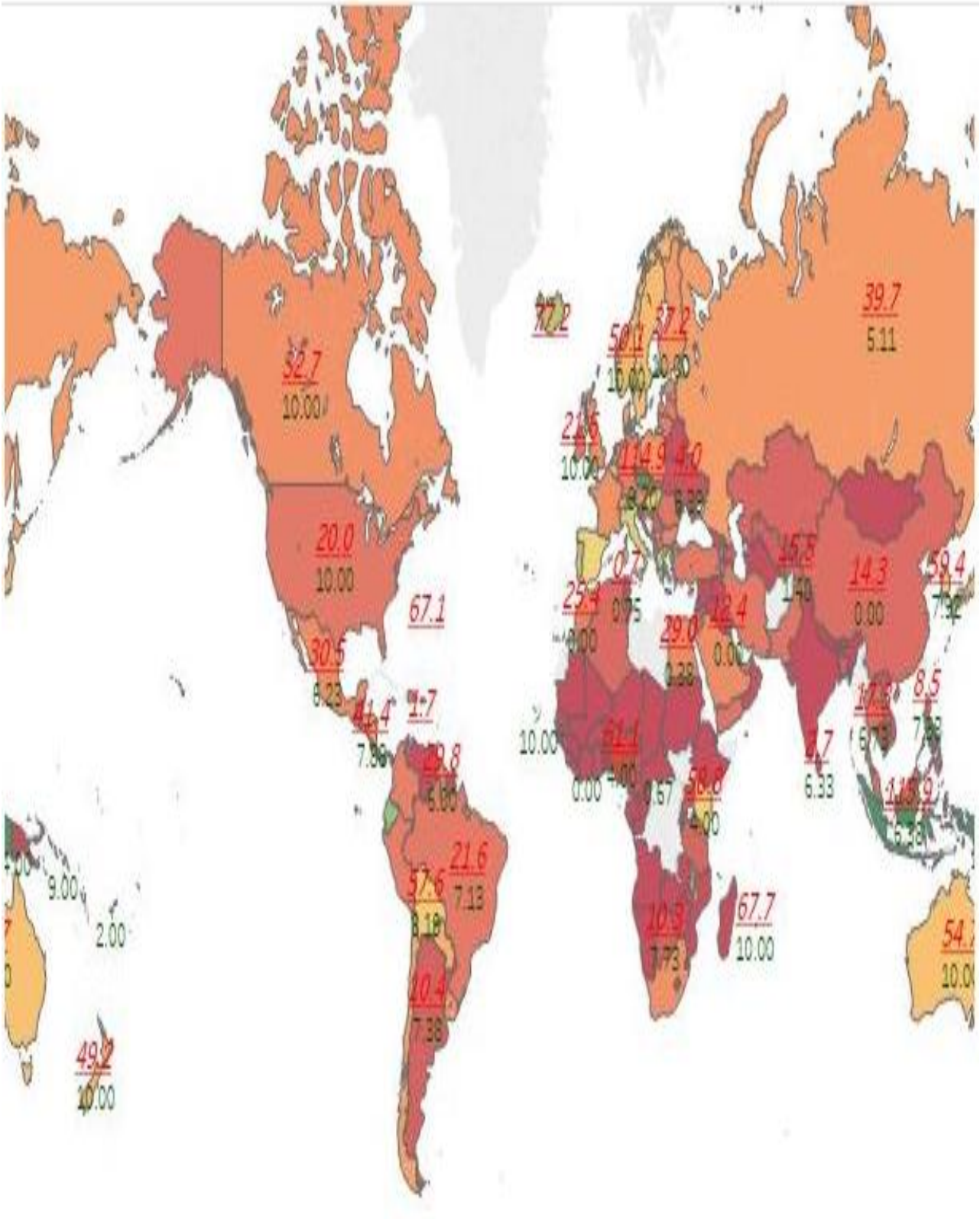
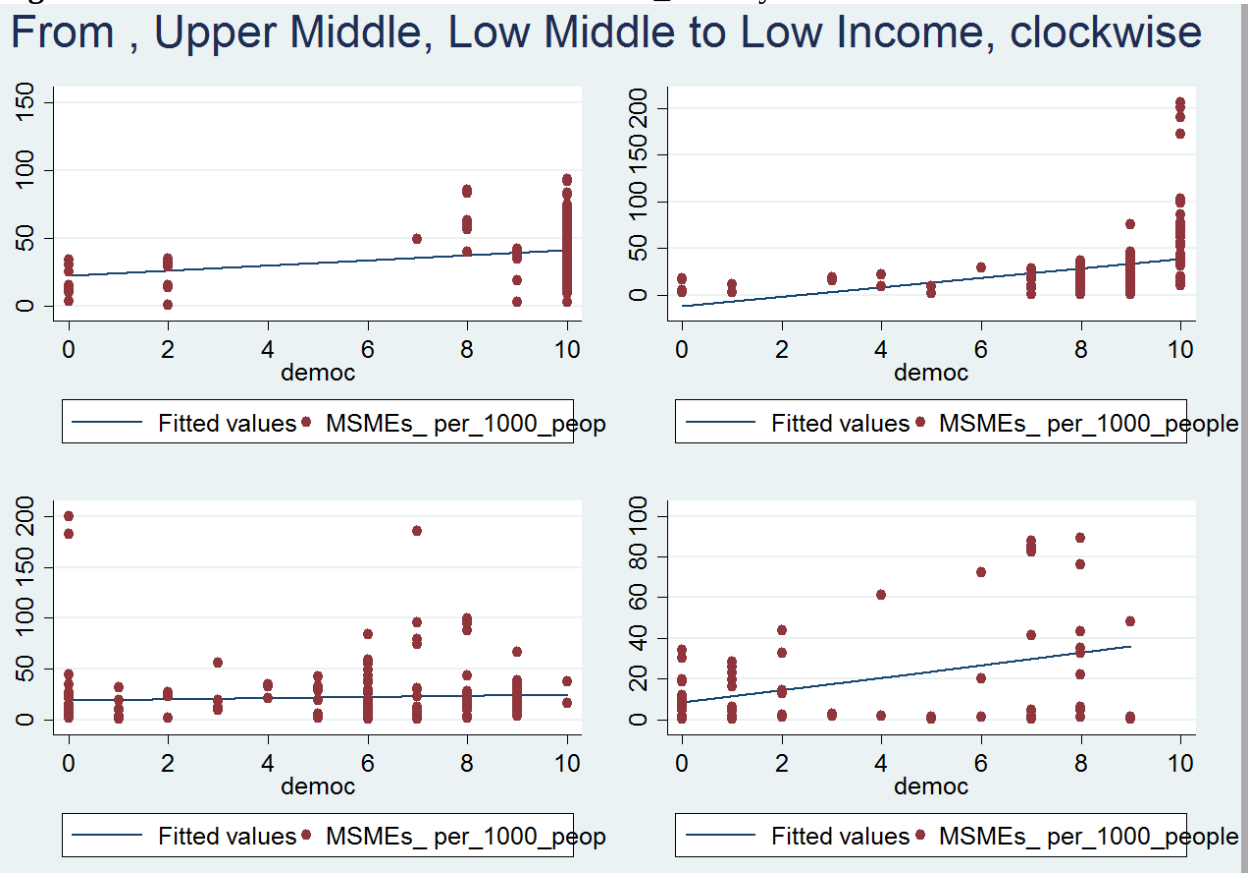


Figure 1.3: The relation between *democ* and *msme_1000* by income level.



1.3 MSME and Democracy:

As we can see from Table 1.2, the three models reveal distinctly different results. Not only are the coefficients different for the same variable among the three models; furthermore, the negative or positive sign also changes. The "mean model" is not much more than a refined pooled regression model against cross-sectional with time-series data. Pooling countries across years has some advantages but generates a number of estimation issues regarding individual heterogeneity. It is likely that observations over time for the same country will be more similar than observations across different countries. It also masks considerable variation in how regions and countries respond to external stimuli like globalization (Pesaran, Shin, 1999). By selecting averaged values by country, it inevitable ignores many time-sensitive factors such as civil and

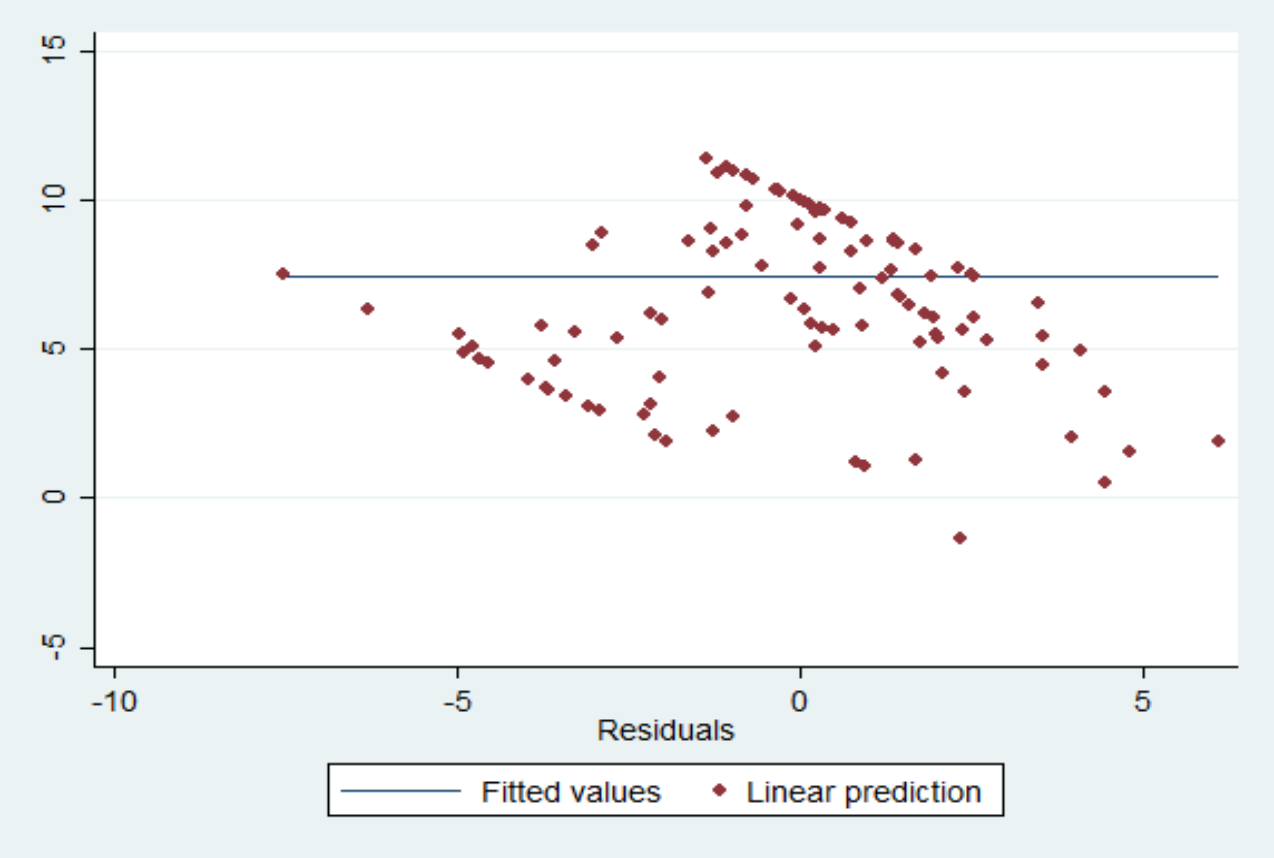
international military conflicts, unpredicted but major domestic or world events, and volatility of cyclical or noncyclical changes in international economy.

Table 1.2 reports the results of all three models:

	OLS--Mean Variables			Panel Fixed Effects			Arellano-Bond with Instruments and 2SLS for democ		
Regressor	**Coef.**	**S.E.**	**p-value**	**Coef.**	**S.E.**	**p-value**	**Coef.**	**S.E.**	**p-value**
MSME_1000	0.0343	0.0034	**0.0000**	-0.00118	0.0024	0.626	-0.0014062	0.000039	0.007
openc	-0.0035	0.002	0.11	0.00418	0.003	0.181	0.0006947	0.0000826	0.0000
domestic4	-0.138	0.461	**0.765**	0.0324	0.082	0.691	0.0200946	0.0020018	0.0000
GNIperCapita	-0.000009	0.000010	**0.37**	-0.00002	0.000007	**0.027**	-0.00000827	0.000001	0.0000
hdi	18.5	1.486900	**0.0000**	8.004	1.644	**0.0000**	2.418235	0.2285291	0.0000
growthrate	-20.61	4.445	**0.0000**	-1.576	0.926	**0.089**	-0.4411297	0.041036	0.0000
ci	-0.1138	0.0156	**0.0000**	0.201	0.009	**0.026**	0.0063513	0.004534	0.0000
gini	0.0759	0.0119	**0.0000**	0.003	0.011	0.796	-0.0038213	0.0002916	0.0000
democ (L1)	n/a	n/a	n/a	n/a	n/a	n/a	0.31086	0.0018	0.0000
democ (L2)	n/a	n/a	n/a	n/a	n/a	n/a	0.00703	0.0004	0.347
Constant	-6.253	1.304	**0.0000**	0.735	1.162	0.528	3.08	0.1294	0.0000
	Mean VIF= 1.2, Max VIF = 2.75			*Hausman Test: Prog>chi2 = 0.0000*					
Observations	680			661			454		
Groups (Countries)	n/a			108			71		
H0: Sargan test for exogeneity	n/a			n/a			1.0000		
H0: no autocorrelation (3rd order)	n/a			n/a			0.6568		
R-Square	0.599			0.2512			n/a		
Prob > F	0.0000			0.0000			0.0000		

Figure 1.4, with the Mean Model, shows the residual of average *democ* (vertical axis) against the residual of IVs. Each dot is a country/year observation, and there are a total of 680 observations. The chart indicates a heteroscedasticity problem for this model. By conducting a Breusch-Pagan/Cook-Weisberg test and White test for heteroscedasticity, I conclude that for this model such a problem does exist. [18] However, I do not intend to rectify this problem since alternative models like panel data analysis are more appropriate.

Figure 1.4: Residual of Ys vs. Xs—Mean Model.



By reviewing the "mean model", I find that all but *domestic4* (political instability) and GNIperCapita are significant against *democ*. The mean value of the theoretic variable

[18] Breusch-Pagan / Cook-Weisberg test: chi2(1) = 219.03. It is so high that we need to reject the null hypothesis that this model has constant variances.
White Test: chi2(27) = 451.94. It is so high that we need to reject the null hypothesis that this model has homoscedasticity.

msme_1000 has a positive effect on mean value of *democ*—one unit of increase of average *msme_1000* predicts 0.0343 units of increase of average *democ*. There is no VIF (variable inflation factor) for any variable that is over 3.25 which indicates that multicollinearity is not a problem.

In contrast, panel data sets possess many advantages over conventional cross-sectional or time-series data. Panel data usually give us a large number of data points (as opposed to the "mean model" which offers us many repeated averaged values through periods), easing the degree of freedom and reducing the collinearity among dependent variables; consequently, improving the efficiency of econometric estimates (Hsiao, 2014). As mentioned before, The Fixed Effects (FE) estimator addresses the issue of the coefficients of variables that are time-invariant (Neyman and Scott), in our case, one of them is the democracy index of OECD countries. The table 1.2 demonstrates that for the FE model, *msme_1000* does not possess a significant impact on *democ*; only ci (Investment), *hdi*, and GNIperCapita are significant against *democ*.

Since our final model is an Arellano-Bond general-method-of-moment (GMM) which includes instrumental variables, we must inspect the data before running it or apply VIF after we run an OLS regression with differenced variables. The differenced variables model will look like this: $\Delta Y = f(\Delta X)$, where ΔY and ΔX is to difference DV and IVs. [19] Even though this method does not take the instrumental variables into account it is a good approximate of multicollinearity problems. [20]

[19] Differencing variables means using (Yt) - (Yt-1) and (Xt) - (Xt-1).
[20] Wang, p. 25. "Transformation of variables by differencing."

All in all, this paper argues that the pre-analysis procedure for multicollinearity should be enough to diagnose the problem. Keep in mind that multicollinearity is not a serious problem. With multicollinearity, our estimation is still unbiased, but the S.E. will be bigger and it may encounter a problem with finding statistical significance of coefficients if the model has a small sample size. In our case, this chapter investigates 680 observations; however, it still conducts a VIF test and presents the cross-correlation table to ensure the validity of the model. The VIF results of *differencing* variables reveal a maximum value of VIF of 3.17 and the Table 1.3 reveals no sign of multicollinearity among variables. Note that it also reveals that there is no multicollinearity between *msme_1000* and *democ*.

Table 1.3: Cross correlation table of differenced variables.

	Democ	MSME Per 1,000	Openc	Domestic4	GINI Per Capita	HDI	Growth Rate	ci (Investment)	GINI
Democ	1.0000								
MSME Per 1,000	0.0040	1.0000							
Openc	-0.0376	0.0439	1.0000						
Domestic4	0.0912	-0.0291	-0.1080	1.0000					
GINI Per Capita	-0.0429	-0.0072	0.0947	-0.1230	1.0000				
HDI	-0.0287	0.0118	0.0179	-0.0917	0.7969	1.0000			
Growth Rate	-0.0305	0.0006	0.1467	-0.2125	-0.2424	-0.2048	1.0000		
ci (Investment)	-0.0743	0.0249	0.1889	-0.1264	-0.0287	-0.0564	-0.0017	1.0000	
GINI	-0.0425	-0.0146	-0.1774	0.0846	-0.2310	-0.3762	-0.0381	0.2360	1.0000

Next, this paper evaluates the sensitivity of our results to alternative approaches to account for persistence in panel data. In general, a lagged dependent variable is obviously correlated with the individual-specific effects; consequently, this specification cannot be estimated via random effects as supported by Hausman Test. Moreover, the fixed-effects estimator is also biased and inconsistent in the presence of a lagged dependent variable when, as

in our dataset, the number of periods is small. There are a number of alternative estimators for this situation, some of which use first and second-difference data to deal with individual-specific effects and then use instrumental variables to address the correlation between the error term and lagged dependent variable generated by differencing (Wawro, 2002). The best alternative is the Arellano-Bond generalized method-of-moments estimator (GMM). Referring to Table 1.2, the last three columns report results for this estimator, which adds two lags of the dependent variable (Xt-1 and Xt-2) to the Arellano-Bond model. In comparing these results with those earlier, note that the number of groups (countries) and total observations has declined. First differencing and the use of lagged instruments results in the loss of many observations altogether. It also means that individuals must be retained in the panel for three years to be included in the analysis. The observations "sacrificed" are often less developed countries which unfortunately have more variation than the developed ones. One can argue that developed countries' have reached a "steady state" of their socio-economic and political development; whereas, most developing countries are still in the process of socio-economic and political transformation; and thus should be the focus of this study.

To assess the validity of these results, we conducted four diagnostic tests recommended by Arellano and Bond. One must note that *autocorrelation* is a *must* addressed serious issue in any model involving time-series data, which simple fixed or random effects model are incapable of examining. [21] In order to examine the autocorrelation issue, the Arellano-Bond specification provides the necessary test. To test for autocorrelation, I assume first differenced residuals should display first-order serial correlation but not second-order or, third-order serial correlation. The z-value for the hypothesis test under the null hypothesis of no first-order autocorrelation is -

[21] Cross-sectional data, in contrast, do not have this concern whereas panel data model by nature have it as a major concern.

1.622 (probability > z = 0.1048), suggesting rejection of this null. The z-value for the hypothesis test under the null hypothesis of no second-order autocorrelation is -0.51086 (probability > z = 0.6094); and for the third-order autocorrelation is -0.21252 (probability > z = 0.8317), suggesting retention of the null hypothesis—no autocorrelation issue exists with this model. These three test results are consistent with the assumptions of the Arellano-Bond estimator. Arellano and Bond also create a Sargan test that helps further assess whether the assumptions about serial correlation hold. The null hypothesis of this test is that the model's over-identifying restrictions are valid; rejection of the null suggests the need to re-specify the model. The test statistic of Arellano-Bond model equals 64.09898 (Probability > chi2 = 0.9996), indicating that I do not have evidence to reject the null hypothesis, and thus the over-identifying restrictions are valid.

Another vital robustness issue is the possibility of estimation bias due to *endogeneity*. On endogeneity, one can argue that there may be a feedback mechanism from democ to *msme_1000*. To address this issue, I conduct the Arellano-Bond regression with the parameters of 2SLS (two stage least square) and endogeneity. Overall, none of the diagnostic tests raises significant concerns about the basic assumptions required for valid implementation of the Arellano-Bond estimator as in Table 1.2. However, the Arellano-Bond model on Table 1.2 presents an overly optimistic picture. All variables are significant. The *msme_1000* has a negative relation with *democ*—the more MSMEs per 1000 people a country has, the less democratic it is. Can we trust and thus uphold the first hypothesis?

The Arellano-Bond model is currently gaining popularity for panel data analysis; however, it has a trade-off cost. While conducting this model, one must at least lag the DV's observations by at least two periods and consequently sacrificed much pertinent information. If the panel data is balanced (with no missing data in periods), or unbalanced data with a

contiguous pattern (the missing data do not appear in a random pattern), an Arellano-Bond model is the most viable tool. However, since this paper's data come from various sources, it is inevitably unbalanced; therefore, a fixed or random effects model is more appropriate for the general analysis. However, this paper argues that the Arellano-Bond model presented here only serves as a tool to provide robustness to the panel data analysis.

To summarize, this paper anticipated the difference in mean OLS model and any panel data model. There are two different assumptions or underlying theoretical frameworks between mean OLS and Panel model. For mean OLS, this paper tries to find the average effect of Xs on Y based on the average of every unit (every country). On the other hand, the panel model is used to find the average effect of Xs on Y by controlling the country effect. Those two models might share the same goal but one should implement and interpret them differently, and the results can be different. In case of different results as shown here, the data and the analysis tell us that the problematic Xs, which flip from positive to negative and vice versa, are influenced *either* because our data is abnormally distributed, or the mean values are influenced by outliers which is often the case of cross country data. Moreover, these Xs have different effects on different countries and periods *or* both. So, this problem or situation suggests an opportunity to expand or deeply investigate the analysis. As mentioned in the previous section, it may be a good practice to divide the data based on certain criteria (such as level of development or economy) and run the same data specification with a fixed effects panel model on the divided datasets. This paper conducts that analysis in the next section and expects to find that these Xs may have positive/negative effects on rich countries but opposite effects on poor countries.

1.4 Models Based on Income Level (MSMEs and Democracy):

There are many justifications for breaking the panel data into separate income level groups. For instance, the strength in one country of MSMEs may have a different impact on its democratic development in a low income economy than a medium or high one. Table 1.4 shows fixed effects panel models on four different income levels. It indicates that there are significant differences for almost all variables' indicators among these four subgroups. In the lower-middle income groups, the dependent variable *democ* is more responsive to our theoretic independent variable *msme_1000*. They reveal a negative relation, which means the higher the msme_1000 index, the lower *democ* index. It reveals that one unit of increase in *msme_1000* causes a decrease of *democ* by 0.162 units. Considering the *democ's* range of values is from 0 to 10, this reveal a strong causal significance. In contrast, other income groups reveal different results which further justify the approach of separating the data into groups based on income level. Figure 1.5A and 1.5B presents a visualization of the relation of *democ* and *msme_1000* based on income level. In conclusion, the rest of the paper is justified to focus its analysis specifically on LDCs.[22]

[22] To recap, the term LDCs is defined in this paper as Less Developed Countries. This includes, based on World Bank's standard, Lower-middle countries ($950 to $4,530 GDP per capita), and Upper-middle countries ($4,530 to $11,600 GDP per capita), in year 2010's American dollar value. This is the focus of this paper.

Table 1.4: Panel Analysis MSME_1000--Fixed Effects (by Income Level). DV-Democ

	High Income (11,670--89,814)--Fixed Effects			Upper Middle (4,530--11,600)--Random Effects			Lower Middle (950--4,530)--Fixed Effects			Low (150--950)--Random Effects		
	Coef.	S.E.	p-value	Coef.	S.E.	p-value	Coef.	S.E.	p-value	Coef.	S.E.	p-value
MSME Dencity	0.0012	0.0011	0.255	-0.003	0.036	0.929	-0.162	0.009	**0.073**	-0.023	0.114	**0.043**
Trade Openess	-0.003	0.0015	**0.039**	0.0012	0.005	0.825	0.003	0.01	0.8	0.224	0.01	**0.031**
Government Crisis	-0.119	0.038	**0.002**	0.101	0.144	0.446	0.122	0.205	0.554	0.6	0.433	0.166
GNI per capita	-0.000002	0.000002	0.479	-0.0005	0.0005	0.328	0.002	0.0003	0.368	-0.001	0.002	**0.466**
Human Development Index	1.254	1.009	0.215	18.199	4.143	**0.000**	5.337	6.747	0.43	2.153	5.6181	**0.701**
Growth Rate	0.426	0.653	0.515	0.105	1.95	0.957	-1.262	1.897	0.507	-4.564	5.414	0.399
Investment	-0.006	0.005	0.225	0.001	0.023	0.963	0.0076	0.025	0.759	0.032	0.041	0.421
GINI Coefficient	-0.112	0.003	0.549	-0.002	0.027	0.931	0.041	0.051	0.422	0.2	0.058	**0.000**
Constant	8.919	0.806	0.0000	-5.607	3.069	0.068	-0.35	4.681	0.941	-8.08	3.342	0.016
	Hausman Test: Prog>chi2 = 0.0000			Hausman Test: Prog>chi2 = 0.1228			Hausman Test: Prog>chi2 = 0.0062			Hausman Test: Prog>chi2 = 0.1121		
Observations	253			159			182			65		
Groups (Countries)	35			32			38			26		
Within R-Square	0.08			0.28			0.07			0.23		
Prob > F	0.0253			0.0000			0.0000			0.0000		

Figure 1.5A: Histogram chart on *msme_1000* by *democ*. It displays from the left for the high income group to the right for the upper middle income group.

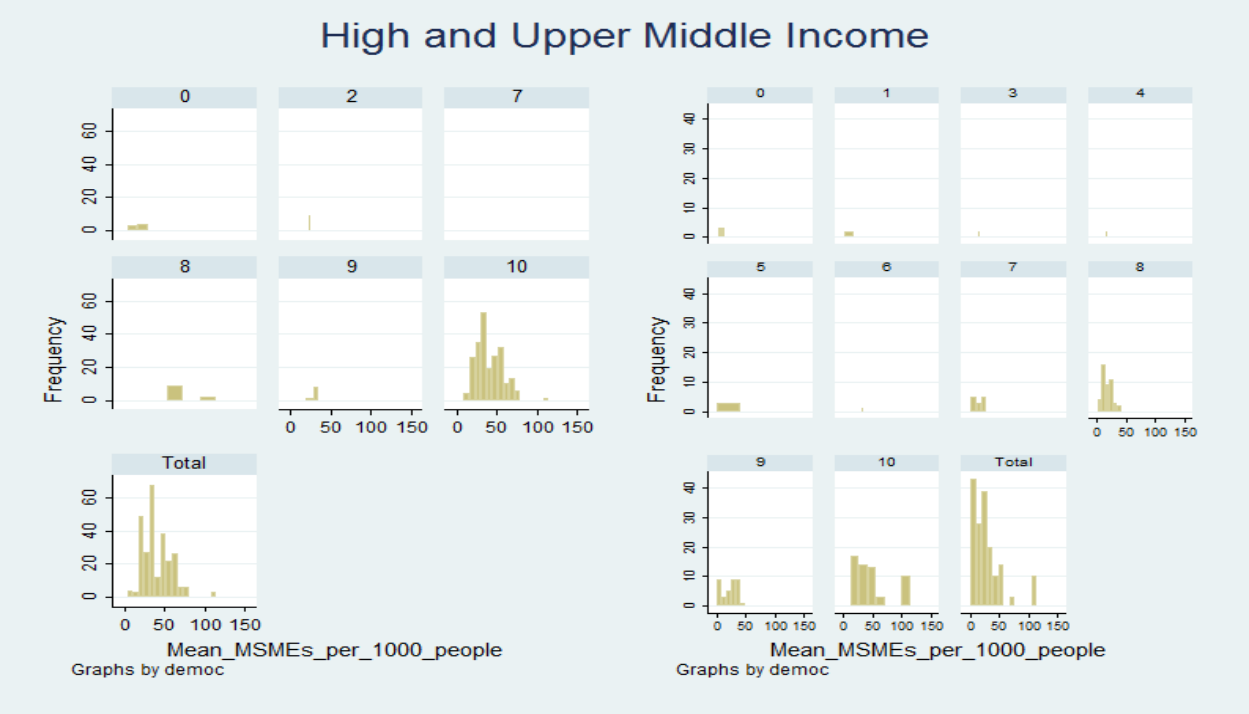
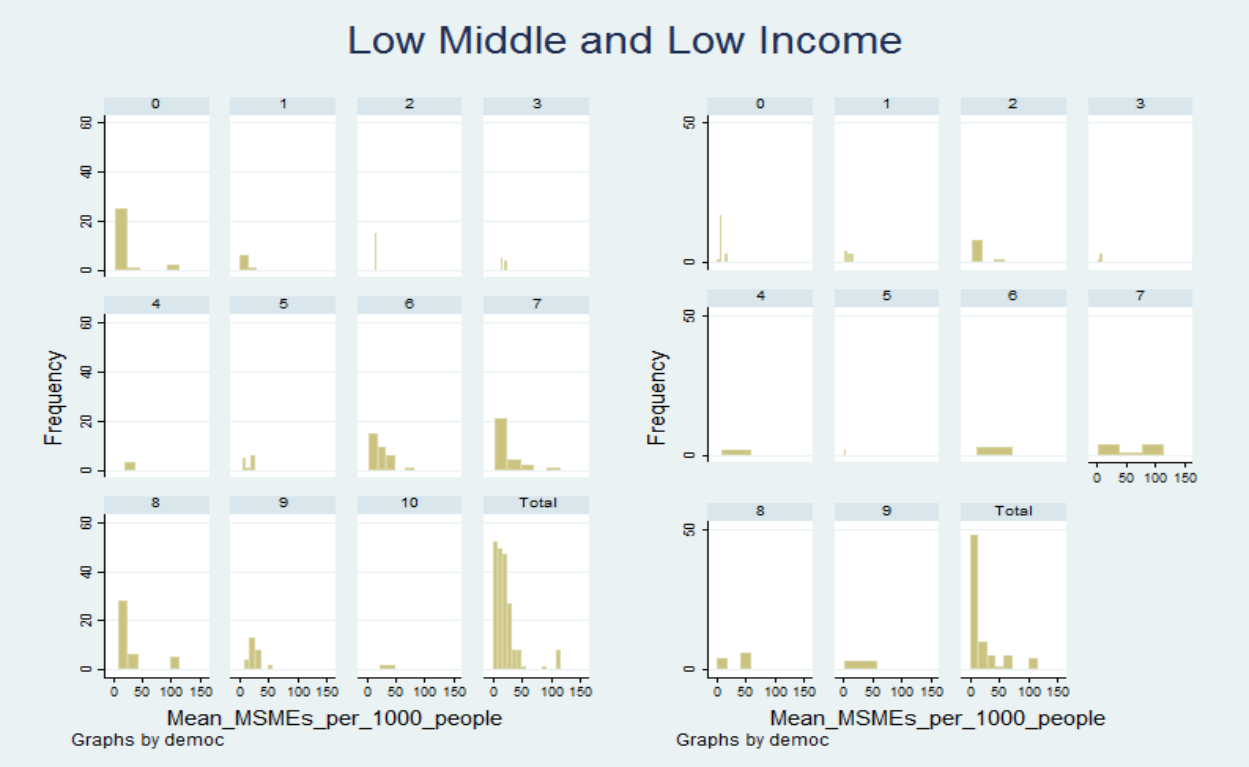


Figure 1.5B: Histogram chart on *msme_1000* by *democ*. It displays from the left for the low middle income group to the right for the low income group.



Many scholars (Coppedge, Alvarez, and Maldonad) argues that what Polity, Freedom House, and other indicators of democracy are actually measuring is the two dimensions of democracy that Robert Dahl proposed in Polyarchy—*contestation* and *inclusiveness.* This chapter therefore examines two models, demonstrated in Table 1.5 and 1.6, as a necessary corollary to the aforementioned argument. Table 1.6 demonstrates that our explanatory variable MSME index has no significant correlation with democratic participation (inclusiveness). However, table 1.6 demonstrates that MSME index has a negative correlation with democratic contestation. This further supports our theoretical arguments that due to the collective action problem of MSMEs, they are often relative passive in democratic contest.

Table 1.5—MSME and Democratic Participation:

	Coef.	Std. Err.	t-value	P > |t|
MSME_1000	-0.000049	0.000137	-0.35	0.723
HDI	**0.450403**	**0.208283**	**2.16**	**0.031**
Urban	-0.003180	0.001928	-1.65	0.100
Corrupt	0.036226	0.023077	1.57	0.118
GINI	0.000038	0.000427	0.09	0.930
gdpeqa	**-0.000001**	**-0.000001**	**-1.94**	**0.053**
Growth Rate	-0.042065	0.048837	-0.86	0.390
Openc	0.000001	0.000233	0.02	0.981
rpegdp	**-0.056115**	**0.017139**	**-3.27**	**0.001**
rpr_work	**0.098518**	**0.047476**	**2.08**	**0.039**
_cons	0.643186	0.140817	4.57	0.000
Prob > F	0.000000			
Within R-sq	0.0742			
Observation	355			
Countries	52			

Table 1.6—MSME and Democratic Contestation:

	Coef.	Std. Err.	t-value	P > |t|
MSME_1000	**-0.091410**	**0.000224**	**-4.08**	**0.000**
HDI	**1.339393**	**0.339697**	**3.94**	**0.000**
Urban	**0.008178**	**0.003143**	**2.60**	**0.010**
Corrupt	0.018783	0.037625	0.50	0.618
GINI	-0.000989	0.000695	-1.42	0.156
gdpeqa	**-0.000018**	**0.000001**	**-2.91**	**0.004**
Growth Rate	-0.040630	0.079626	-0.51	0.610
Openc	-0.000278	0.000380	-0.73	0.465
rpegdp	**-0.061340**	**0.027944**	**-2.20**	**0.029**
rpr_work	-0.131772	0.077408	-1.70	0.090
_cons	-2.618446	0.229596	-1.14	2.255
Prob > F	0.000000			
Within R-sq	0.2245			
Observation	355			
Countries	52			

1.5 Conclusion and Policy Implication

MSMEs and Democracy: The pool data model in this paper significantly indicates that for a country's political and economic structure, if the concentration of economic power has political influence, then democratization of the country will suffer. On the other hand, if a country's economic power is scattered, democratization will proceed smoothly. However, based on deeper analysis, this paper concludes that separating the data into four income groups and applying panel data analysis offers us a more robust, unbiased, valid, and reliable alterative model. Based on this approach, MSMEs actually have a significant and *negative* impact on democracy, especially in lower-middle economic group. A plausible explanation is that before a country's take-off stage, MSMEs often form the main economic driving force. These nascent businesses

need, and may even demand a strong and *central (*as opposed to local ones*)* government for support, protection, sponsorship, and special privilege. As summarized by Deng Xiaoping's slogan, "get rich first!" consequently, political rights come later.

Many studies have explored the relationship between the relative size of the MSME sector, economic growth, and poverty alleviation. Most of them discover a positive association between the importance of MSMEs and GDP per capita growth even though they find no evidence that MSMEs alleviate poverty or decrease income inequality (Beck, Demirguc-Kunt and Levine). In conclusion, MSMEs are conducive to economic growth, especially at the early stage of a country's economic development, and the latter, according to Feng, has a Granger effect on democratic development. Healthy economic development contributes to the popularization of education, secularization, and the rise of the middle class, and thus promotes the awakening of political consciousness. These middle class groups, while satisfying with the distribution of material, began to demand the reallocation of political power. In other words, economic development leads to the expansion of an independent "civil society" (Inglehart and Welzel). It is through this long route that a stable and prosperous economy will eventually lead to median voter theorem and reach income equality equilibrium. However, such an inference has exceeded the scope of this paper.

However, this paper also agrees with Fukuyama's statement that most authoritarian regimes in the past have fulfilled their historic tasks and lay a good economic base for later democratization. For developing countries, Fukuyama stresses the importance of the establishment of stability, government capacity, and nation building to lay the foundation for an economic take-off. Once those three foundations are in place, a country with a stronger

economic base with collective power to express their preferences will subsequently demand more democracy.

This chapter demonstrates a statistically, and substantively significant negative correlation between the concentration of MSMEs in LDCs and democratic development. The corollary question to that is through what mechanism do MSMEs impact LDCs [23] democratic development? The following chapter presents my central theoretical claim by arguing that collective action problems (Olson, 1971) amongst MSMEs make them a weak collective government actor, and thus encourage them to engage in corrupt relationships with the government to advance their goals. It provides a viable solution by demonstrating that the presences of a national business association organized by MSMEs will incentives autocratic elites to curtail corruption. Such a mechanism also applies to the collective power of SME associations for organized action for demand for democratic reforms.

1.6 Discussion

Is msme_1000 an appropriate explanatory variable for democratic development? This chapter emphasizes that all future studies of democratic development must pay attention to the stage of economic, and institutional development of any country. As President Kennedy once said "Victory has a hundred fathers and defeat is an orphan." A mature and stable democracy has many causes; however, a less developed country may have a plethora of options to reach its unique national goal. One tested route to take, as demonstrated by many rising Asian countries, is to encourage, protect, and sponsor its MSME development as the first step to reach stable

[23] The term LDCs is defined in this paper as all countries that were not classified as a member of OECD before 1980. As Chapter One emphasizes that the focus of this paper is to study the democratic development of those countries. Therefore, this paper excludes all members of OECD that have few variances in their democratic index all through these past 40 years.

economic growth. With a healthy and stable economy, and political development will eventually follow.

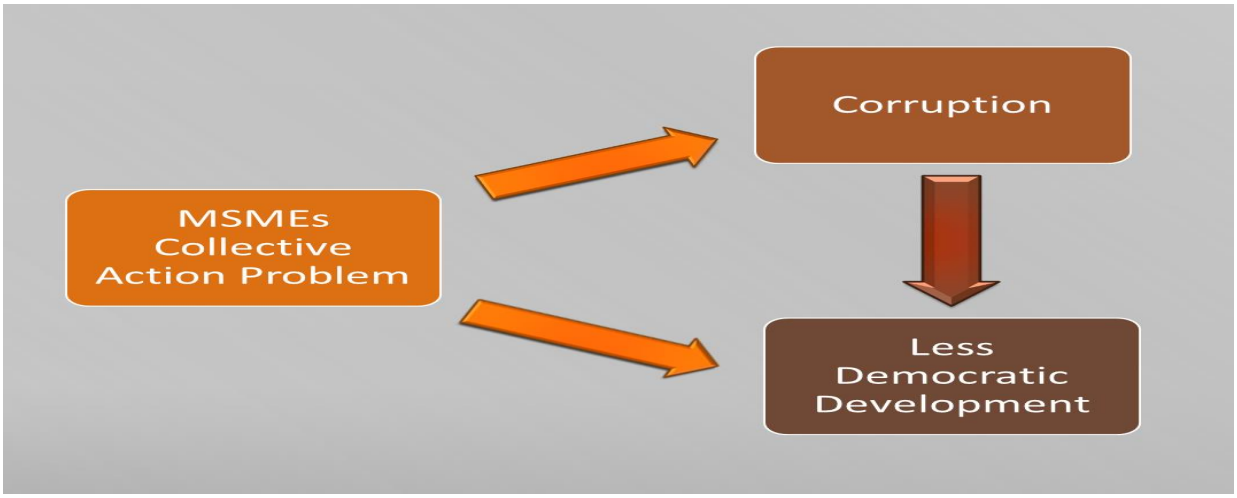
Chapter Two

The Power of Collection Action of MSMEs—National MSMEs Associations

Introduction:

The proceeding sections demonstrated a statistically, and substantively significant negative correlation between the concentration of MSMEs in LDCs (less developed countries) and democratic development. The corollary question to that is through what mechanism do MSMEs impact LDCs [24] democratic development? My central theoretical claim is that collective action problems (Olson, 1971) amongst MSMEs make them a weak collective actor in relation to the government, and thus encourage them to engage in corrupt relationships to advance their goals. The resulting weakness of the decentralized business sector keeps them from holding LDCs governments accountable. Furthermore, due to this collective action problem, MSMEs are often relative passive in democratic contests. Both causal mechanisms weaken democratic development as shown in Figure 2.1.

Figure 2.1—Theoretic Mechanism:



[24] The term LDCs is defined in this paper as all countries that were not classified as a member of OECD before 1980. As discussed in Chapter One, the focus of this paper is to study the democratic development of these countries. Therefore, this paper excludes all members of the OECD that have low variances in their democratic index across the past 40 years.

The relationship between MSMEs and democratic development remains largely unexplored by academia. The closest related subject and a central question in political and academic debates about international political development is the relationship between democracy and corruption. Corruption problems among countries over the past decades form one of the most formidable challenges to economic policymakers in both developed and developing countries. This chapter will contribute to this discussion by demonstrating that this corruption problem has a significant and positive connection to the strength of a country's MSMEs. Further, this chapter argues, thorough empirical analysis, that a statistically, and substantively significant positive correlation exists between the corruption problem and democratic development in LDCs. Finally, it suggests a viable counter-measure by demonstrating that that the presences of a national business association organized by MSMEs will incentivize autocratic elites to curtail corruption.

However, for any political movement to start, members of a disenfranchised group must balance the individual costs of participation against the overall group costs and benefits for organizing. Groups that find collective action easier will have lower costs of organization both in total and per member. Because of the inherent collective action issues, MSMEs in LDCs may be in a very weak position to hold the government accountable under any political system. Thus, although MSMEs may desire more control of government decision-making vis a vis traditional elites, along the lines described by Ansell and Samuels, they may not have the collective action capacity to use democracy to their advantage.

This chapter argues that, under these circumstances, either MSMEs do not have the power to push the landed elites in non-industrialized countries or business elites in industrialized autocracy to introduce democratic institutions, or once in place they do not have the collective

power to hold governments—the status quo power holder—accountable. Accordingly, individual MSMEs seek other means to get their way from government, most notably through corrupt transactions. Because of this, at the individual level corruption is a least worst strategy for MSMEs that seek public goods from government and want to avoid predation that threatens to put them out of business.

Importantly, studies show that those disenfranchised MSMEs in LDCs hold strong anti-corruption preferences (IFC 2013; UNDP 2012).[25] This is because their status as regime outsiders excludes them from existing patronage networks, makes them the most frequent targets of bribes by government officials, and because such corruption often threatens their very survival as businesses. Corruption is the cost of doing business in many LDCs. However, it stands to reason that if MSMEs can solve their collective action problems to join collectively to hold the government accountable for the provision of public goods and government policy, they would prefer democracy without corruption.

Despite their economic significance and their strong anti-corruption preferences, the political behavior of the non-elite owners of these private-sector MSMEs have received little attention from studies of authoritarian politics and policy making. Yadav and Mukherjee in their 2016 book demonstrate that the preferences and actions of owners of MSMEs play an extremely important role in the issue of corruption in autocracies. Private MSME owners face considerable obstacles in mobilizing individually or collectively to demand anti-corruption policies and legal protection against other forms of political exploitation. This chapter will demonstrate via empirical evidence that LDCs which have an economic structure composed mostly of MSMEs

[25] United Nations Development Program (UNDP). 2012. World Economic and Social Survey 2012: In Search of New Development Finance. New York: United Nations. International Finance Corporation (IFC). 2013. SME Banking Knowledge Guide. Washington DC: IFC. https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/AC_Home

have more corruption, less political stability, tougher government suppression, and consequently less democratic development.

Theoretic Framework

2.1 The Puzzles:

All scientific inquiry begins with the conscious perception of a puzzle (Kuhn, 1970). This paper's research motivation is no exception, and the negative link between MSMEs and democracy raises a paradox. While we observe consistently that greater economic development is linked to higher levels of democracy, why would MSMEs, which are strongly associated with higher growth, lead to less democracy for LDCs? To start with, many scholars argue that for LDCs, a corrupted political environment is detrimental to their democratic development (Berg). Therefore, this raises a corollary question, is there a correlation between the level of corruption in LDCs and their democratic development? If so, through what mechanism do MSMEs impact corruption levels in LDCs?

Lastly, why has corruption declined in some, but not other autocratic regimes? Why do elites in an autocratic regime take genuine steps to confront corruption issues while other autocratic elites remain indifferent to epidemic corruption problems?

2.2 My Contribution:

This chapter adopts a collective action perspective and argues that what may ultimately keep actors from maximizing their own self-interest and encourages them to act in the long-term common good is whether they expect others to also act for the common good (Bauhr and Nasiritousi). If corruption is seen as a business dilemma, a member of an MSMEs' willingness to pay bribes and engage in corruption should critically depend on expectations about others

members' behavior, or the entrenchment of corruption in their working environment (Persson, Rothstein & Teorell 2013). This chapter takes a constructive approach to democratic transitions by examining whether MSMEs may have an effect on corruption and consequently impact LDCs' democratization, conditional on the mechanism of collective action.

The MSMEs' collective action problem thus works through the intervening variable of individual members engaging in corrupt actions. If so, what measure can resolve this collective action issue? A reasonable suggestion is that disenfranchised members of MSMEs can induce the elites to make credible commitments to curbing corruption only under conditions that facilitate collective action.

2.3 The Elementary Assumptions:

First, I assume that in LDCs there exist two groups of actors: the elite and the citizens. The first group is most often associated with the status quo ruling elites, holding power and controlling resources and revenues. The second group consists of the citizens, and is more numerous than the first group, and members of MSMEs belong to the second group. Second, this chapter assumes that all individuals, the elite as well as the citizens care most about their material interests and economic well-being (Acemoglu and Robinson 2000). Third, democratization happens because the elites, due to pressure that threatens the long-term prospect of self-interest, decide to broaden the franchise and include more voices in the decision- making process. In the same vein, Ansell and Samuels argue that regime changes often result from the rise of intra-elite conflict, between a group that controls the political decision-making and other relatively *wealthy* groups that do not. Groups that find collective action easier will have lower costs of organization both in total and per member. These assertions are in keeping with arguments advanced by previous scholarship (Acemoglu and Robinson 2000, 2006).

2.4 The Hypotheses:

The main theme of this paper is that several issues arise as a result of the collective action problem facing MSMEs, including, the problem of corruption, the relative power of governmental oppression, a lack of political stability, and eventually a delay in democratic development. In essence, this chapter aims to demonstrate that it is through the problems of weak collective action that MSMEs have a negative impact on democratic development in LDCs. Building on this concept, this chapter examines four hypotheses related to MSMEs and their collective action problem.

Hypothesis 2.1: For LDCs, more corruption will lead to a lower level of democratic development.

Hypothesis 2.2: For LDCs, the more MSMEs a country has as its main economic development force, the more serious their corruption problem. I argue this corruption is a response to MSME's weak collective action.

Hypothesis 2.3: For LDCs with high concentration of MSMEs, the existence of national SME associations will lead to a lower level of corruption. The latter variable serves as a mitigating factor if not the solution to the former's collective problem against corruption. [26]

Hypothesis 2.4: For LDCs with high concentrations of MSMEs, the existence of national SME associations will lead to a higher level of democracy. This hypothesis aims to test the theory that a national SME association is conducive to LDCs democratic development.

[26] Since this paper's data source World Bank's MSME Country Indicators—Historical Data uses the term MSME (https://finances.worldbank.org/Other/MSME-Country-Indicators-Historical-Data/xajb-umcc), the previous chapter in this paper follows this convention. However, most scholarly works on national economic development use the term SME associations; therefore, this chapter adopts it accordingly.

2.5 **Research Design**:

This section presents the research design, and provides an overview of the data, and the variables of choice, which takes into account the many dynamics of the relationship between MSMEs and democratic development in LDCs, including elements of collective action and corruption.

First, this section will discuss why this paper considers a quantitative design to be the optimal approach to address these research questions, it will then introduce the statistical model. Further, it presents a discussion of this paper's choice of the main dependent and independent variables. Finally, this section presents and explores a number of control variables which are theoretically and empirically related to the main dependent variable. But more important; when conducting research, this chapter chooses the model that best enables us to answer the questions presented at the beginning (King, Keohane and Verba, 1994).

2.5.1 Why A Quantitative Model?

There are several reasons for why a quantitative design, combined with qualitative analysis was selected for this subject. First and foremost this chapter aims to identify and investigate the general trends and effects of MSMEs on democratic development in LDCs by using a large and cross national sample. It follows the suggestions of King, Keohane and Verba (1994) that the goal in social science is to make causal *inferences*, seeking to make general claims based on empirical observations. Once a general trend has been identified and validated, the later chapters will further support, and explore it with specific case studies.

The main theory of this paper on the relationship between MSMEs and democratic development is general, and not meant to only be applied on a case-to-case basis. Given this, a quantitative model has an advantage, by allowing making general causal *inferences* to be drawn from the results (Bryman). Along that vein, a quantitative model allows for inferring the

potential intervening effects of MSMEs on democratic development through analysis of variations in data—by including various control variables and evaluating robustness checks. Further, quantitative tools, while studying the interaction of specific variables, allow for in-depth, and over-time analysis of structural co-variations and underlying relationships unobservable to the researcher's eye in specific case studies. This paper argues that any theory has to survive quantitative as well as qualitative examination if it is to be accepted in academia (Achen).

2.5.3 The Statistical Model:

This chapter adopts a panel data analysis to include as many countries, and annual data observations as available.[27] However, as explained in the previous chapter, there are a few cautions against panel data. Since panel data involve two dimensions, a cross-sectional dimension, comparing multiple countries at a point in time, and a time series dimension, tracking changes of trends overtime; many time-invariant variables may severely skew the results (Beck and Katz). For example, the democratic levels of some OECD countries have not changed across the time period for which data on the dependent or independent variables is available. As a result, this chapter justifies, the decision to *exclude* all countries that were classified as OECD before 1980 from the sample due to the fact they reached a higher level of development before the MSME data starts (1985), and also are invariant on their historical democratic development (1985-2015).

All in all, analyzing this complex research topic by aggregating data through various data sources with lagged, weighted, and averaged variables involves formidable tasks; however, this

[27] Panel data model is generally referred to as time-series, cross-section (TSCS) and longitudinal analysis.

chapter will present a clear, reliable, valid, and parsimonious theory with which to approach this task.

The general equations of this study are as follow:

Hypothesis 2.1: $democracy_{it} = \alpha_{it} + \beta\, corruption_{it} + \gamma Z_{it} + \varepsilon_{it}$ [28]

Where the subscript *i* indexes individual countries; the subscript *t* indexes years; $democracy_{it}$ is our measure of democratic level (using various democracy indexes); $corruption_{it}$ is our measures of the level of corruption, (which will be explained in detail later in this section); the vector Z_{it} includes dichotomous indicators for each year and, in many specifications, the control variables. Finally, α, β, and γ are parameters to be estimated; and $\varepsilon\, it$ is an additive error term. The coefficient estimates of β in the equation indicate whether, and to what extent an individual country's *democracy* index is correlated with the theoretic variable *corruption.* This chapter expects *corruption* to be negatively and significantly correlated with the dependent variable *democracy,* especially for LDCS—the central hypothesis of our empirical analysis. Thus, our null hypothesis is that $\beta = 0$, with the alternative hypothesis that β is *less* than zero.

Hypothesis 2.2: $corruption_{it} = \alpha_{it} + \beta_1\, msme\_1000_{it} + \gamma Z_{it} + \varepsilon_{it}$ [29]

This chapter expects *msme_1000 (*a measurement of MSME concentration*)* to be *positively* and significantly correlated with the dependent variable *corruption.* The values for the theoretical variable *msme_1000* are from World Bank's MSME Country Indicators—Historical

[28] For LDCs, more corruption will lead to a lower level of democratic development.
[29] For LDCs, the more MSMEs a country has as its main economic development force, the more serious their corruption problem will be.

Data.[30] It stands for the number of MSME firms per 1,000 people in a country—the higher levels mean more concentration. Thus, our null hypothesis is that $\beta_2 = 0$, with the alternative hypothesis that β_1 is *greater* than zero. [31] To take into consideration potential lag factors, the values for each observation were calculated using the following formula: the revised *msme_1000 = (l.msme_1000 * 2 + msme_1000)/3.*

A common criticism of quantitative analysis is that it overly simplifies complex social realities. The most obvious simplification is that a quantitative mode assumes that independent variables are independent with regard to each other. This leads to the spurious assumption that the an independent variable has an invariant effect on a dependent variable regardless of the interaction of each independent variable with other independent variables (Friedrich, 797). This criticism is quite pertinent to this chapter's quantitative inquiries on MSMEs and democratic development in LDCs.

In general, multiplicative terms are widely identified as hard to interpret (Friedrich) and when operating with panel models cannot be fully evaluated by simply looking at the sign or the statistical significance of the coefficient matrix. Therefore, this chapter introduces an interactive variable which combines the effect of msme*_1000* $_{it}$ *and sme_association.*

Hypothesis 2.3: corruption $_{it} = \alpha_{it} + \beta_1$ *msme_1000* $_{it} + \beta_2$ *sme_association* $_{it} + \beta_3$ *msme_1000_association* $_{it} + \gamma Z_{it} + \varepsilon_{it}$ [32]

Hypothesis 2.4: democracy $_{it} = \alpha_{it} + \beta_1$ *msme_1000* $_{it} + \beta_2$ *sme_association* $_{it} + \beta_3$ *msme_1000_association* $_{it} + \gamma Z_{it} + \varepsilon_{it}$[33]

[30] https://data.worldbank.org/data-catalog/xajb-umcc. It includes 131 countries from 1990 to 2010. The data is unbalanced with missing data for some years' data for some countries.
[31] The prefix *"l."* stands for previous year's value.
[32] For LDCs, the interactive effect of MSMEs and national MSME associations has a negative impact on corruption problem.

Hypothesis 2.3 and Hypothesis 2.4 serve to test and validate the central theme of this chapter: A combined effect of *msme_1000 $_{it}$ and sme_association—more dense MSMEs and the presence of an association*—has a *negative* and significant effect on corruption, and a *positive* and significant effect on democratic development.

2.5.4 Data Description

2.5.4.1 Dependent Variables:

The values for dependent variables are from various sources. Further, since the measurement of levels of democracy is a contested issue, this chapter employs seven reputable and well-accepted democratic indexes in its statistical models:

fh_status—Source: Freedom House[34] Range: "1. Free 2. Partly Free 3. Not Free. Description: "Countries whose combined average ratings for Political Rights and Civil Liberties fell between 1.0 and 2.0 were designated "Free"; between 3.0 and 5.5 "Partly Free", and between 5.5 and 7.0 "Not Free". Since then, countries whose ratings average 1.0 to 2.5 are considered "Free", 3.0 to 5.0"Partly Free", and 5.5 to 7.0 "Not Free"." [35] Since higher values for *fh_status* indicate less democracy, I generated a new variable *fh_status_std* so that it can be compared to other democratic indicators. [36]

P_polity2—Source: University of Gothenburg. Description: "The Quality of Government Institute, page 462. The polity score is computed by subtracting the p_autoc score from the

[33] For LDCs with high concentration of MSMEs, the existence of national MSME associations will lead to a higher level of democracy.
[34] https://freedomhouse.org/content/freedom-world-data-and-resources
[35] https://freedomhouse.org/content/freedom-world-data-and-resources
[36] *fh_status_std = fh_status * -1*

p_democ score; the resulting unified polity scale ranges from +10 (strongly democratic) to -10 (strongly autocratic)." [37]

democ—Source: The Polity IV project: "The Institutionalized Democracy indicator is an additive eleven-point scale (0-10). It starts with 0-least democratic and 10-most democratic. The indicator is derived from the coding of four variables: xrcomp, xropen, xconst and parcomp. "[38]

vdem_liberal, Liberal component index—Source: Varieties of Democracy (V-Dem) Project. Description: "To what extent is the liberal principle of democracy achieved? The liberal principle of democracy emphasizes the importance of protecting individual and minority rights against the tyranny of the state and the tyranny of the majority. The liberal model takes a "negative" view of political power insofar as it judges the quality of democracy by the limits placed on government. This is achieved by constitutionally protected civil liberties, strong rule of law, an independent judiciary, and effective checks and balances that, together, limit the exercise of executive power. Aggregation: This index is formed by averaging the following indices: equality before the law and individual liberties, judicial constraints on the executive, and legislative constraints on the executive." [39]

vdem_egaldem, egalitarian democracy index—Source: The V-Dem Project. Description: "To what extent is the ideal of egalitarian democracy achieved? The egalitarian principle of democracy holds that material and immaterial inequalities inhibit the exercise of formal rights and liberties, and diminish the ability of citizens from all social groups to participate." [40]

[37] http://www.qog.pol.gu.se doi:10.18157/QoGStdJan17
[38] http://www.systemicpeace.org/inscrdata.html
[39] https://v-dem.net/en/data/
(Coppedge et al., 2016b) (Coppedge et al., 2016a)
[40] https://www.v-dem.net/en/

vdem_*partipdem*, Participatory democracy index—Source: The V-Dem Project. Description: "To what extent is the ideal of participatory democracy achieved? The participatory principle of democracy emphasizes active participation by citizens in all political processes, electoral and non-electoral. It is motivated by uneasiness about a bedrock practice of electoral democracy: delegating authority to representatives. Thus, direct rule by citizens is preferred, wherever practicable. This model of democracy thus takes suffrage for granted; emphasizing engagement in civil society organizations, direct democracy, and subnational elected bodies. To make it a measure of participatory democracy, the index also takes the level of electoral democracy into account." [41]

democracy, dichotomous democracy measure—Source: Democracy and Dictatorship Revisited, 2010. [42] Description: "Dummy variable coded 1 if the regime qualifies as democratic. The conditions for this variable are the following: democracy=1 if exselec < 2, or legselec=2 and closed=2, or dejure=2 and defacto=2 and defacto2=2 and lparty=2, or type2=0, or incumb=0." [43]

2.5.4.2 Explanatory Variables:

msme_1000, MSME concentration. Source: World Bank's MSME Country Indicators—Historical Data.[44] Description: The number of MSME firms per 1000 people. The definition for what constitutes an MSME is different between countries. To take into consideration potential lag structures, the original values have been revised as *msme_1000 = (l.msme_1000 * 2 +*

[41] https://www.qogdata.pol.gu.se/data/qog_bas_jan19.pdf, p. 591.
[42] https://sites.google.com/site/joseantoniocheibub/datasets/democracy-and-dictatorship-revisited
[43] https://www.researchgate.net/publication/226769485_Democracy_and_Dictatorship_Revisited_Codebook
[44] https://data.worldbank.org/data-catalog/xajb-umcc. It includes 131 countries from 1990 to 2010. The data is imbalanced with missing data for some years' and missing data for some countries. However, all models presented here only include those 94 countries that were not classified as OECD before 1980.

msme_1000)/3. For a detailed description of the construction of this index please refer to the data set's codebook. [45]

vdem_corr: Political corruption. Source: V-Dem Project. Description: "How pervasive is political corruption? The directionality of the V-Dem corruption index runs from less corrupt to more corrupt (unlike the other V-Dem variables that generally run from less democratic to more democratic situation). The corruption index includes measures of six distinct types of corruption that cover both different areas and levels of the polity realm, distinguishing between executive, legislative and judicial corruption." [46]

sme_assoc: Source: A data set provided by Bumba Mukherjee of Pennsylvania State University based on a two year project on authoritarian governments. Description: The sample includes "authoritarian regime country-years (as per the Boix, Miller and Rosato as well as the Geddes, Wright, Frantz criteria for such regimes) from 1990 to 2017 for the presence or lack thereof of (i) SME associations. The data set contains links indicating where information for the SME association variable was drawn from. The data set was created for autocracies across the developing world, and is especially useful given our focus on FDI flows." [47]

2.5.4.3 Control Variables:

There are eight control variables used in this study, their descriptions are as follow:

GINI: The observations for the variable GINI index are from World Bank 2017 Estimate. [48]

[45] https://finances.worldbank.org/Other/MSME-Country-Indicators-Historical-Data/xajb-umcc
[46] https://www.qogdata.pol.gu.se/data/qog_bas_jan19.pdf, p.584.
[47] Email: bumba.mukherjee@psu.edu. The data set includes 42 authoritarian countries with 850 observations.
[48] https://data.worldbank.org/indicator/SI.POV.GINI. The range is from 13.59 to 65.8

wdi_gdpagr: Agriculture production as % of GDP. Source: World Bank Development Index. Description: "Agriculture corresponds to ISIC divisions 1-5 and includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs." [49]

wdi_gdpcapcur: GDP per capita (current US dollar). Source: World Bank Development Data. Description: "GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars." [50]

wdi_gdpcapgr: GDP per capita growth (annual %). Source: World Bank Development Data. Description: "Annual percentage growth rate of GDP per capita based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP per capita is gross domestic product divided by midyear population. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products." [51]

wdi_popurb: Urban population (% of total). Source: World Bank Development Data. Description: "Urban population refers to people living in urban areas as defined by national

[49] http://data.worldbank.org/data-catalog/world-development-indicators (World Bank, 2016)
[50] https://www.qogdata.pol.gu.se/data/qog_bas_jan19.pdf, p.634
[51] https://www.qogdata.pol.gu.se/data/qog_bas_jan19.pdf, p.634

statistical offices. The data are collected and smoothed by United Nations population Division." [52]

wdi_popurbagr: Urban population growth (annual %). Source: World Bank Development Data. Description: Urban population refers to people living in urban areas as defined by national statistical offices. It is calculated using World Bank population estimates and urban ratios from the United Nations World Urbanization Prospects. [53]

undp_hdi: Human Development Index. Source: United Nations Development Program, 2015. Description: "The HDI is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living."[54] For each variable, Table 2.1 provides summary statistics.

[52] https://www.qogdata.pol.gu.se/data/qog_bas_jan19.pdf, p.668
[53] https://www.qogdata.pol.gu.se/data/qog_bas_jan19.pdf, p.669
[54] http://hdr.undp.org/en/data/

***Table 2.1*: Summary of Statics:**

Variables	Observations	Mean	Std. Dev.	Min	Max
fh_status_std	8,613	-1.9646	0.8250	-3.0000	-1.0000
vdem_partipdem	803	0.1657	0.1002	0.0286	0.5918
p_polity2	1,598	1.9743	6.3024	-10.0000	10.0000
democ (Polity IV)	1,000	5.8320	3.6218	0.0000	10.0000
vdem_liberal	803	0.3927	0.1775319	0.5835	0.9202
vdem_egaldem	803	0.2160	0.1173	0.0516	0.7490
vdem_corr	10,356	0.5141	0.2969	0.0000	0.9771
Democracy (Democracy and Dictatorship Revisited)	5,327	0.5005	0.5000	0.0000	1.0000
MSME_1000	1,009	24.6249	27.2473	0.0000	204.3391
SMEassoc	912	0.4485	0.4976	0.0000	1.0000
GINI	944	0.3956	0.1211	0.0200	0.9000
MSME*SMEAssoc	306	16.0924	26.7004	0.0000	200.6684
wdi_gdpagr	1,587	14.4748	12.0415	102.0000	56.5440
wdi_gdpcapcur	1,625	4743.2440	7137.5100	6448.0000	67,005.6
wdi_gdpcapgr	1,604	2.0477	6.3242	-62.2251	122.9683
undp_hdi	1,560	0.6349	0.1399	0.2860	0.8980
wdi_popurb	1,650	55.2241	21.0649	6.2710	100.0000
wdi_popurbagr	1,650	2.2547	2.0671	-5.0856	16.5832

2.6 Empirical Results

To summarize, the results presented here demonstrate support for all four hypotheses, [55] all explanatory variables show significant coefficients with predicted effects on dependent variables. [56] Table 2.5 shows mixed results—in five of seven models the combined effect of *msme_1000* and *sme_assoc* have positive and significant coefficients; however, since the measurement of

[55] Hypothesis 2.1: For LDCs, more corruption will lead to a lower level of democratic development. Hypothesis 2.2: For LDCs, the more MSMEs a country has as its main economic development force, the more serious their corruption problem. Hypothesis 2.3: For LDCs with high concentration of MSMEs, the existence of national MSME associations will lead to a lower level of corruption. Hypothesis 2.4: For LDCs with high concentrations of MSMEs, the existence of national MSME associations will lead to a higher level of democracy.

[56] All models apply fixed effects panel analysis after examining Hausman tests.

levels of democracy is a contested issue, we can hardly expect that all models in table 2.5 will have consistent results. Overall, this chapter concludes that the theory presented here—For LDCs, MSME's collective action problems lead to more corruption and less democratic development, and the existence of a national SME association leads to a lower level of corruption and more democratic development—is supported by quantitative analysis.

Figure 2.2:

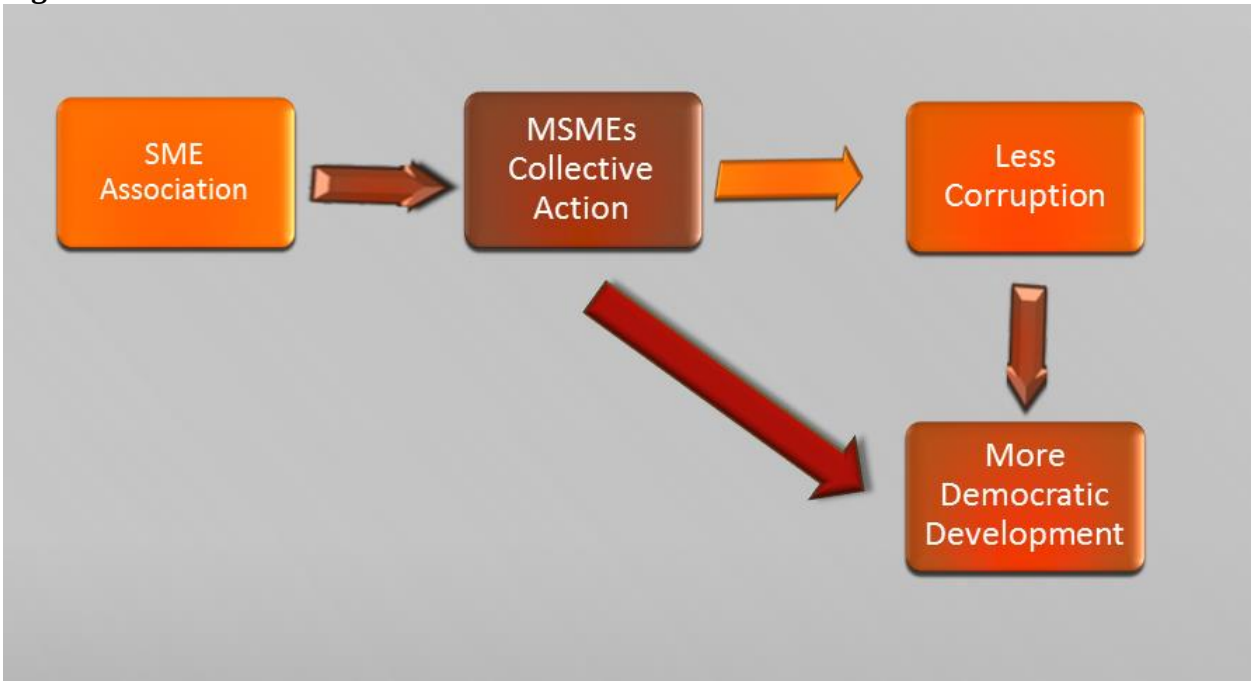


Figure 2.2 further demonstrates the theoretical causal mechanisms underlying the empirical results, that the existence of an SME association has a significant marginal effect on democratic development in LDCS.

2.3.1 Hypothesis 2.1: For LDCs, more corruption will lead to a lower level of democratic development.

Table 2.2 shows the correlations between corruption and various indexes of democracy. Model 6 (*vdem_egaldem*, range: 0.0516 to 0.749, STD: 0.1173) reveals that an increase of the level of

corruption in a country (*vedem_corr*, range: 0 to 0.977, STD: 0.2969) by one unit decreases the democratic index by 0.4045 units, at least 10.4 standard errors away from 0. [57] Conversely, an increase of *vedem_corr* by one standard deviation decreases vdem_egaldem by 102.4% of a standard deviation. [58] Such a negative correlation is both statistically and substantively significant. Since panel data involve two dimensions, a cross-sectional dimension, comparing multiple countries at a point in time, and a time series dimension, tracking changes of trends overtime; the result supports Hypothesis 2.1 that the more corrupted an LDC government is, the lower the level of expected democratic development, holding other factors constant. Model 6 also reveals the highest within *R square* (0.4533) and the lowest root mean squared error (rmse) among all models. Five out seven models show a clear, significant, and substantively important negative relationship (high coefficients, low standard errors, low rmse, and low p > t values) between corruption and democratic development.

[57] **β / standard error: 0.4045/0.0391**

[58] **$\beta_i (\sigma_{xi}/\sigma_y) \rightarrow$ 0.4045 * (0.296933/ 0.1173) = 1.024**

Table 2.2 Dependent Variables: various indexes of democracy

Variables	Freedom House	Participatory Democracy Index	Polity2	Liberal Component Index	Polity IV Institutionalized Democracy	Egalitarian Democracy Index	Democracy and Dictatorship Index
Corruption	-0.1997	-0.4203***	-5.0489***	-0.2902***	-3.3276***	-0.4045***	-0.1172
	0.2886	0.0467	1.3477	0.0671	0.7800	0.0391	0.1473
MSME Density	-0.0077***	0.0004	-0.0101	-0.0001	-0.0061	-0.0004	-0.0012
	0.0022	0.0003	0.0106	0.0004	0.0061	0.0002	0.0012
GINI	0.0371	-0.0159	0.9860	-0.0296	0.3616	-0.0068	-0.0359
	0.2134	0.0256	1.1140	0.0333	0.6399	0.0194	0.1264
Agriculture % of GDP	-0.0126	0.0008	-0.0479	0.0009	-0.0517***	0.0002	-.01326***
	0.0077	0.0011	0.0389	0.0015	0.0227	0.0008	0.0046
GDP per capita growth (annual %)	-0.0027	0.0002	-0.0097	-0.0098	-0.0008	0.0005	-0.0019
	0.0032	0.0004	0.0167	0.0005	0.0097	0.0003	0.0023
Human Development Index	2.5867***	-0.9503	-1.6879	-0.2407	-3.0876	-0.3365***	-0.1046
	0.9206	0.1141	4.3434	0.1606	2.5174	0.0935	0.5232
Urban population (% of total)	-0.0403***	0.0034***	0.0335	0.0072***	0.0284	0.0047***	-0.0016
	0.0077	0.0008	0.0324	0.0012	0.0188	0.0007	0.0039
Urban population growth (annual %)	-0.0569***	-0.0021	-0.2004***	0.0103***	-0.0869	0.0010	-0.0052
	0.0176	0.0020	0.0913	0.0027	0.0525	0.0016	0.0113
Hausman Prob>chi2 = **	0.0000	0.1114	0.3482	0.0853	0.3498	0.0759	0.1735
Observations	381	213	381	213	380	213	334
Within R-Square	**0.1766**	0.4573	0.0596	**0.3342**	0.0673	**0.4533**	0.0508
Overall R-Square	0.0068	**0.2838**	**0.2494**	0.2765	**0.2311**	0.3452	**0.0546**
rmse	0.2424	0.0234	1.2825	0.0313	0.7360	0.0182	0.1418
legend: * p<0.05; ** p<0.01; *** p<0.001		**: IF Hausman > 0.1 uses random effects , or else uses fixed effects					

2.3.2 Hypothesis 2.2: For LDCs, the more MSMEs a country has as its main economic development force, the more serious their corruption problem will be. This chapter argues that this corruption is a response to MSME's weak collective action.

Table 2.3 shows the correlations between corruption and MSME concentration. [59] Model 1 reveals that an increase of the level of MSME per 1000 people (*MSME_1000*, range: 0 to 204, STD: 27.247) by one unit *increases* the corruption index by 0.0019 units (*vedem_corr*, range: 0 to 0.977, STD: 0.2969), 4.75 standard errors away from 0. [60] Conversely, an increase of *MSME_1000* by one standard deviation decreases *vedem_corr* by 17.4% of a standard deviation. [61] Such a negative correlation is both statistically and substantively significant. The result supports Hypothesis 2.2 that the more MSMEs a country has as its main economic development force, the more serious their corruption problem; holding other factors constant. Among all five models, model 1(the full model) reveals the highest within *R square* (0.1949) and the lowest root mean squared error (rmse) among all models. All in all, the results are meaningful. Every model shows a clear, significant, and substantively important negative relationship (high coefficients, low standard errors, low rmse, and low p > t values) between corruption and MSME concentration.

[59] This chapter selects vdem_corr as the corruption index because its values include all the periods that other variables cover from 1946 to 2017.

[60] **β / standard error: 0.0019/0.0004 = 4.75**

[61] **β_i (σ_{xi}/σ_y) → 0.0019 * (27.247/ 0.296933) = 0.1743**

Table 2.3 Dependent Variable: *vdem_corr*

Corruption	Model 1	Model 2	Model 3	Model 4	Model 5
MSME Density	0.0019***	0.0013***	0.0012***	0.0013***	0.0014***
	0.0004	0.0004	0.0004	0.0004	0.0004
GINI	0.0127	0.0010	0.0022	-0.0097	-0.0182
	0.0402	0.0433	0.0424	0.0427	0.0431
Agriculture % of GDP	-0.0042**	0.0012	0.0009	0.0011	
	0.0014	0.0010	0.0010	0.0010	
GDP per capita growth (annual %)	0.0007	0.0008			
	0.0006	0.0006			
Human Development Index	-1.0805***				
	0.1556				
Urban population (% of total)	0.0081***				
	0.0012				
Urban population growth (annual %)	0.0085***		0.0098		
	0.0033		0.0035		
Hausman Prob>chi2 = **	0.0998	0.8090	0.8938	0.6908	0.6936
Observations	381	383	385	385	391
Within R-Square	**0.1949**	0.0330	0.0490	0.0280	0.0376
Overall R-Square	0.0113	**0.0031**	**0.0022**	**0.0019**	**0.0005**
rmse	0.0459	0.4979	0.0493	0.0499	0.0510
legend: * p<0.05; ** p<0.01; *** p<0.001		**: IF Hausman > 0.1 uses random effects , or else uses fixed effects			

2.3.3 Hypothesis 2.3: For LDCs with high concentration of MSMEs, the existence of a national SME association will lead to a lower level of corruption. The variable *sme_assoc* serves as a mitigating factor, if not the solution for the former's collective action problems against corruption.

Table 2.4 demonstrates the correlation between corruption and the combination of MSME_1000 and SME associations. Model 1 reveals that an increase in the level of the interactive variable of MSME per 1000 people and SME association (*MSME_1000*sme_assoc*, range: 0 to 200.67, STD: 26.7004) by one unit *decreases* the corruption index by 0.0027 units (*vedem_corr*, range: 0 to 0.977, STD: 0.2969), more than 5.4 standard errors away from 0. [62] Conversely, an increase of *MSME_1000*sme_assoc* by one standard deviation decreases vdem_egaldem by 24.3% of a standard deviation. [63] Such a negative correlation is both statistically significant. This result supports the assertion that the existence of a national SME association will lead to lower levels of corruption, for LDCs with high concentration of MSMEs. Among all five models, model 1 (the full model) reveals the highest within *R square* (0.3814) and the lowest root mean squared error (rmse) among all models. All in all, the results are notable. Every model shows a clear, significant, and substantively important negative relationship (high coefficients, low standard errors, low rmse, and low p > t values) between corruption and democratic development.

[62] **β / standard error: 0.0027/0.0005 = 5.4**

[63] **β_i (σ_{xi}/σ_y)→ = 0.0027 * (26.7004/0.296933) = 0.243**

Table 2.4 Dependent Variable: *vdem_corr*

Corruption	Model 1	Model 2	Model 3	Model 4
SME Association	-0.0206	-0.0146	0.0215	-0.0199
	0.0201	0.0203	0.0170	0.0177
MSME Density	0.0006	0.0009	0.0017**	0.0006
	0.0006	0.0006	0.0005	0.0005
SME Association * MSME Density	-0.0027***	-0.0030***	-0.0031***	-0.0028***
	0.0005	0.0005	0.0005	0.0004
GINI	0.0817*	0.0692	0.0697	0.0869*
	0.0353	0.0354	0.0363	0.0342
Urban population (% of total)	0.0053***	0.0053***		0.0051***
	0.0010	0.0011		0.0010
Urban population growth (annual %)	0.0078*			0.0071*
	0.0030			0.0029
Agriculture as % of GDP	0.0005	0.0009		
	0.0014	0.0014		
Hausman Prob>chi2 = **	0.0000	0.0005	0.0225	0.0000
Observations	232	232	234	234
Within R-Square	**0.3814**	0.3610	0.2447	0.3781
rmse	0.0375	0.0381	0.0401	0.0374

legend: * p<0.05; ** p<0.01; *** p<0.001 **: IF Hausman > 0.1 uses random effects , or else uses fixed effects

2.3.4 Hypothesis 2.4: For LDCs with high concentrations of MSMEs, the existence of national SME associations will lead to a higher level of democratic development. This hypothesis aims to test the theory that a national MSME association is conducive to LDCs democratic development.

Table 2.5 demonstrates the correlation between various indexes of democracy and the combination of *MSME_1000* and *sme_assoc*. Table 2.5 shows mixed results—in five of seven models the combined effect of *msme_1000* and *sme_assoc* has positive and significant coefficients.

Model 3 (*vdem_partipdem*, range: 0.0285774 to 0.5917552, STD: 0.1002151) reveals that an increase in the level of the interactive term between MSME per 1000 people and SME association (*MSME_1000*sme_assoc*, range: 0 to 200.67, STD: 26.70039) by one unit *increases* *vdem_partipdem* by 0.0033 units, more than 11 standard errors away from 0. [64] Conversely, one standard deviation of increase of *MSME_1000*sme_assoc* increases more than 87.9% of a standard deviation of vdem_partipdem (participatory democracy index). [65] Such a correlation is both statistically and substantively significant. Since panel data involve two dimensions, a cross-sectional dimension, comparing multiple countries at a point in time, and a time series dimension, tracking changes of trends overtime; the result supports Hypothesis 2.4 that for LDCs with high concentrations of MSMEs, the existence of a national SME association will lead to a higher level of democracy. Among all five models, model 3 reveals the highest within *R square* (0.631) and the lowest root mean squared error (rmse) among all models. All in all, this chapter concludes that our theory—For LDCs, MSME's collective action problems lead to more corruption and less democratic development, and the existence of a national SME association will lead to a lower level of corruption and more democratic development—is sufficiently supported by quantitative analysis. Further, Figure 2.1 demonstrates that even though a higher level corruption likely leads to a lower level of democracy, having a national SME association has a positive impact on a LDC democratic development.

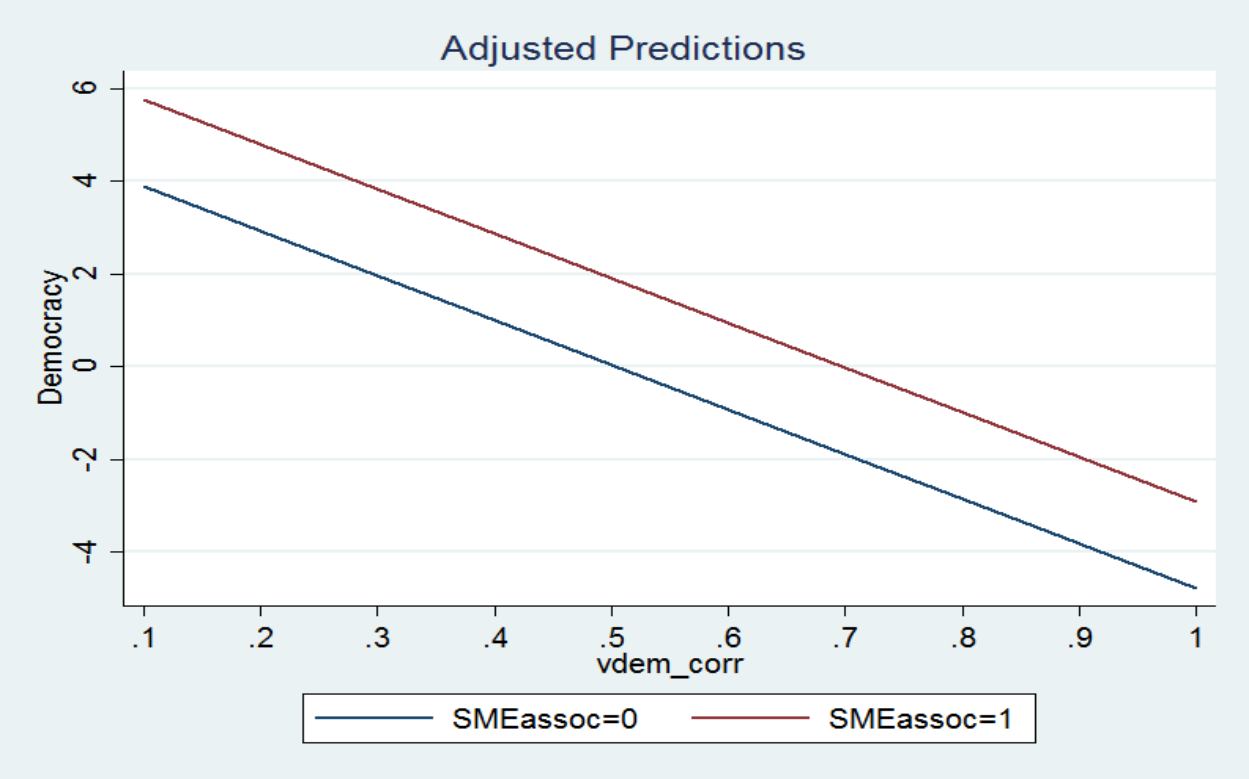
[64] **β / standard error: 0.0033/0.0003 = 11**

[65] $\boldsymbol{\beta_i (\sigma_{xi}/\sigma_y) \rightarrow}$ **0.0033 * (26.70039/ 0.1002151) = 0.879**

Table 2.5 Dependent Variables: various indexes of Democracy:

Variables	Freedom House	Polity2	Participatory Democracy Index	Liberal Component Index	Polity IV—Institutionalized Democracy	Egalitarian Democracy Index	Democracy and Dictatorship Index
SME Association	0.0570	-0.6359	0.0291**	-0.0111	-0.8106**	-0.0199	-0.011
	0.1209	0.5803	0.0110	0.0178	0.2609	0.0104	0.0293
MSME Density	-0.0663	-0.0210	-0.0013***	-0.0070	-0.0177*	-0.0014***	-0.0004
	0.0034	0.0167	0.0003	0.0005	0.0075	0.0003	0.0008
SME Association * MSME Density	-0.0001	**0.0406****	**0.0033*****	**0.0015*****	**0.2866*****	**0.00202*****	0.0002
	0.0029	0.0143	0.0003	0.0004	0.0064	0.0002	0.0007
GINI	0.2126	1.523	-0.0170	-0.02437	0.6701	-0.0301	0.0068
	0.2122	1.0427	0.0216	0.0352	0.4687	0.0206	0.0528
Agriculture % of GDP	-9.0020	-61.7662	-0.8093	2.5195*	-30.7670*	0.8492	-1.7392
	8.2375	34.6589	0.7283	1.1834	15.5793	0.6925	1.8075
GDP per capita (current US dollar)	-5.0431	-71.3403	-3.0328***	-1.0829	-31.2436	-1.3772	-.10778
	9.3518	42.2480	0.8567	1.3921	18.9906	0.8146	2.4125
Urban population (% of total)	-18.9442**	27.2322	1.4404*	5.2232***	35.151	1.3992*	-0.2850
	6.4793	32.0716	0.5798	0.9421	14.4163	0.5513	2.1770
Hausman Prob>chi2 = **	0.0000	0.0000	0.0000	0.0000	0.0404	0.0000	0.0400
Observations	232	290	214	214	290	214	254
Within R-Square	0.1163	0.0675	**0.6312**	0.2928	0.1209	0.4135	0.0048
rmse	0.2272	1.1516	**0.0199**	0.0323	0.5176	0.0189	0.0554
legend: * p<0.05; ** p<0.01; *** p<0.001		**: IF Hausman > 0.1 uses random effects , or else uses fixed effects					

Figure 2.1: The marginal impact of SME association and corruption on democratic development:



2.7 Conclusion and Policy Implication

Many studies have explored the relationship between the relative size of the MSME sector, economic growth, and poverty alleviation. Most of them discover a positive association between the importance of MSMEs and GDP per capita growth even though they find no evidence that MSMEs alleviate poverty or decrease income inequality (Beck, Demirguc-Kunt and Levine). In conclusion, MSMEs are conducive to economic growth, especially at the early stage of a country's economic development, and the latter, according to Feng, has a Granger effect on democratic development. Robust economic development contributes to the popularization of education, secularization of society, and the rise of the middle class, and thus promotes the awakening of political consciousness. In this environment, the middle class, while satisfied with

the overall distribution of material resources, began to demand the reallocation of political power. In other words, economic development leads to the expansion of an independent "civil society" (Inglehart and Welzel). It is through this long route that a stable and prosperous economy may eventually lead to median voter politics and reach income equality equilibrium. However, such an inference has exceeded the scope of this paper.

My theory identified two variables that have a significant impact on LDC rulers decisions to curtail corruption—the level of MSME concentration, and the presence of a national business association organized by, and representing the interests of private-sector small-and medium-scale firms. I argue that while these two factors are each important in influencing LDCs corruption problem, it is the existence of a SME association which forms a collective power that has a significant effect on corruption and democratic development in LDCs. While private SMEs may wish to address the corruption problem; their lack of collective action power hampers them, and prevents organizing to actually achieve that goal. Under such a condition, an alliance between private SME businesses to form a national association can credibly exert anti-corruption pressure on authoritarian rulers. Such a mechanism also applies to the collective power of SME associations for organized action to demand for democratic reforms. This chapter with the support of quantitative studies, argues that elites in LDCs would feel compelled to take serious actions to reduce corruption when faced with such an alliance. Why? It is because this alliance between an economically significant societal group—MSMEs—has the power to present a serious threat to the regime by challenging its legitimacy. Ruling elites in LDCS will therefore be more than likely to pay attention to the political demands of such an alliance and will implement genuine anti-corruption and/or ultimately implement democratic reforms.

It should bring no surprise that national SME associations will use various lobbying tactics to trigger these changes, even a limited opening of the political systems, such as the introduction of a directly elected legislature, enhances the relative political influence of MSMEs. It is also plausible that lower levels of corruption in autocracies with a national SME associations may help foster higher economic growth rates in these countries. These findings specifically suggest that the concentration of MSMEs alone will not reduce, and sometimes may actually encourage, corruption across LDCs. This chapter has explained via statistical analyses, how organized societal demand through NGOs such as national SME associations can change the behavior of elites, and consequently influence most institutions in LDCs.

These findings suggest three important policy implications. First, the government in an LDC should encourage MSMEs development, not only for economic reasons but also it may serve as a base for curtailing corruption and improving political development.

Second, lower levels of corruption in LDCs with a national SME association may help foster higher economic growth rates in these countries. Along that vein, high corruption in LDCs that lack an SME association is likely to severely depress economic growth. These claims build on an extensive literature that has strongly supported the finding that less corruption leads to higher economic growth in LDCs (Mauro, Paolo. 1995).

Finally, autonomous non-governmental organizations of whatever kind nurture people's collective bargaining power against official corruption and oppression. An LDC that encourages them ensures a long-term and progressive political development.

Chapter Three

The Power of Collective Action -- MSMEs in South Korea, Taiwan, and China

Introduction:

The proceeding sections demonstrated a statistically, and substantively significant negative correlation between the concentration of MSMEs in LDCs (less developed countries) and democratic development. Furthermore, private MSME owners face considerable obstacles in mobilizing individually or collectively to demand anti-corruption policies and legal protection against other forms of political exploitation (see Figure 3.1). Chapter Two suggests a viable counter-measure to this dilemma, by demonstrating that the presences of a national business association organized by MSMEs incentivizes autocratic elites to curtail corruption (refer to figure 3.2).

This chapter builds further support for these arguments and explores the underlying mechanisms through case studies contrasting and comparing MSMEs and democratic development among South Korea, Taiwan, and China. South Korea and Taiwan were selected based on the guidelines provided by Gerring and Lieberman, and are included to articulate the mechanisms specified by the theory presented here. South Korea provides a case that supports the empirical findings for Hypotheses One—a lower MSME historical index is likely to lead to democratization for LDCs. [66] In contrast, Taiwan provides a contrasting case to explore what

[66] Please refer to the *case-selection typology* section in the appendix. Following the typology of Gerring and Lieberman, South Korea serves as *conforming case*; Taiwan serves as a *deviant case*; and China serves as a *crucial case*.

might make Taiwan different than the average results found in my empirical analysis. This chapter provides a plausible explanation for such an outlier. [67]

Figure 3.1—Theoretic Mechanism:

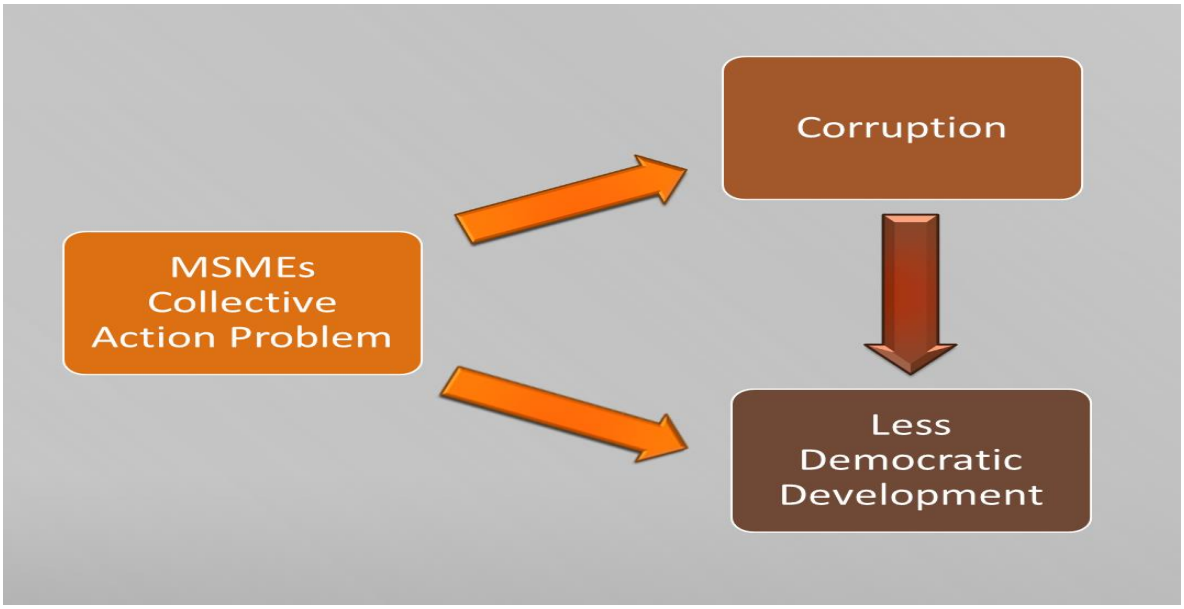
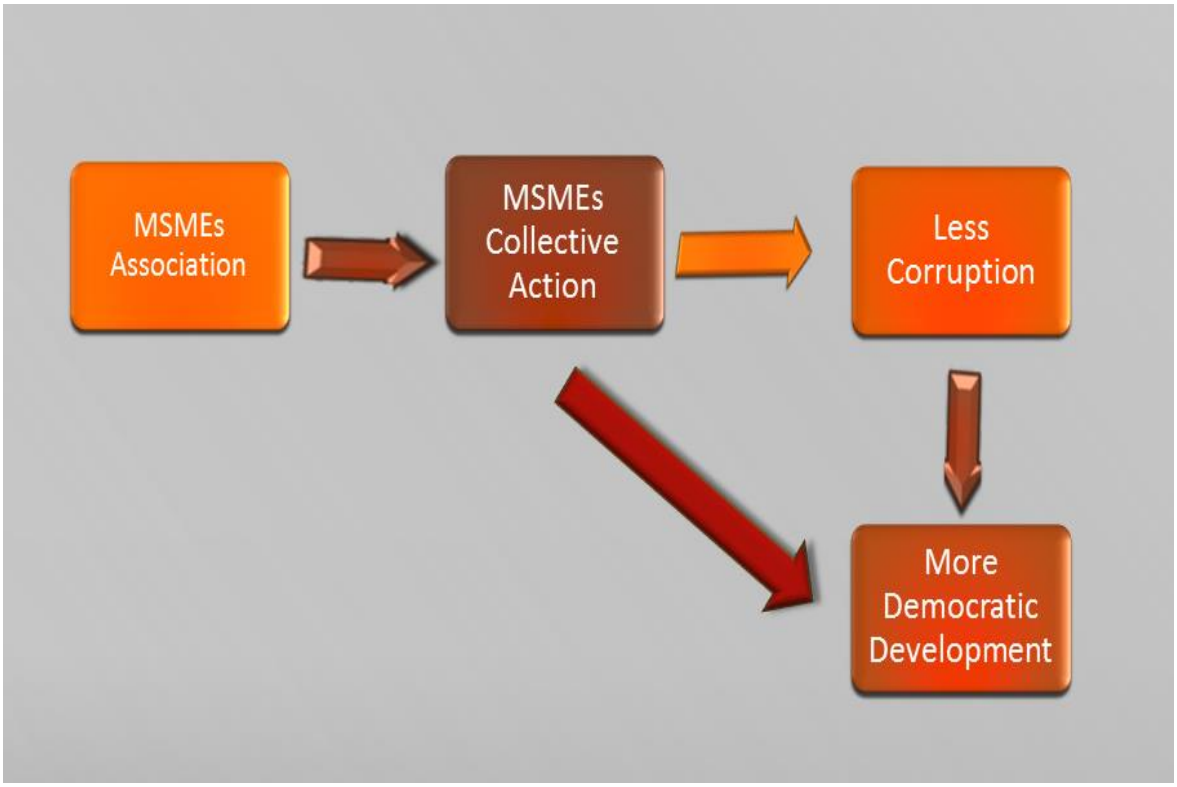


Figure 3.2—the solution for MSMEs collective action problem:

[67] Since this paper's data source World Bank's MSME Country Indicators—Historical Data uses the term MSME (https://finances.worldbank.org/Other/MSME-Country-Indicators-Historical-Data/xajb-umcc), the previous two chapters in this paper follow this convention. However, most scholarly works on national economic development use the term SME; therefore, this chapter adopts it accordingly. In essence, they both refer to the same concept with different definitions. World Bank data adopts different definitions of MSME for each country, while Taiwan, South Korea, and China define an SME as a firm that employs between 20 and 250 employees.



Further adhering to the guidelines provided by Gerring and Lieberman, this chapter selects China to serve as a crucial case study. A critical component of the Chinese economy is the fact that state-owned enterprises (SOEs) still lead in borrowing, government sponsorship, and investment. Data from 2013 show the public sector accounting for less than 30% of total firms, but roughly 47% of assets, 40% of revenue, and 40% of profits. [68] In contrast, MSMEs represent the driving force for China's economic growth since 1980, and their significance for the economy continues to grow. According to the China Statistical 2015 Yearbook, SMEs contribute up to 53.4% of China's assets, 62% of national revenue, and 64.3% of profits. More importantly, they also contribute nearly 58 percent of the GDP, 68 percent of exports, 82% of total

[68] http://sites.utexas.edu/chinaecon/files/2015/06/US-China-Commission_State-Owned-Enterprises-and-State-Capitalism.pdf

employees, and 75% of new jobs every year in China.[69] Even though SMEs play an important, if not dominant role in Chinese economic growth and contribute substantially to its employment and outputs; they are politically weak and constantly at the mercy of the whim of central government's policies. Following Londregan's and Poole's argument, Chinese business elites have too much to lose and the rational choice is to collaborate with the government whereas MSMEs rarely play a part in the current political arena. This chapter uses the example of China to demonstrate that a high concentration of SMEs with no national SME association will severely hamper democratic development and. In addition, although predicting the political future of a vast country such as China is a risky endeavor, this chapter provides an analysis of the likely future based on insights from this theoretic framework.

This chapter further assumes that the reader has sufficient knowledge about the political, economic, and social history of these three countries; therefore, it focuses solely on those issues that relate to the paper's basic theory. Since the focus is on their past democratic development, some of the data and sources cited here are dated but pertinent.

Figure 3.3 summarizes relevant economic and political factors about these countries and demonstrates the differences in key features between these three cases. Based on the figure, this chapter aims to resolve the following puzzles:

1. Even though these cases have different economic development models that have achieved mostly equal economic success, why has the history of each country's democratic development been so different?

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69 https://www.ocbcwhhk.com/webpages_cms/files/Investment%20Newsletter/English/Investment%20Newsletter_Sep_e(1).pdf
http://www.stats.gov.cn/tjsj/ndsj/2015/indexeh.htm

2. Even though one popular theory (Harrison and Huntington) holds that Asian citizens under the influence of Confucian ideology are not receptive to democracy, why has such a theory been clearly rebutted in South Korea and Taiwan?
3. All three cases now have national SME association; however, does the timing, duration, or the nature of each institution have different impacts?
4. Even though Przeworski in 1997 set a threshold for autocracies' democratization; [70] why did both Taiwan at its time of democratization and China's current non-democratic status pass that critical point by a significant margin? [71]
5. Does foreign political, economic, and social influence have a major impact on the democratic development of these respective cases? (Im, Hyug-baeg. Ko, Jim).

[70] This chapter uses Przeworski's argument in 1997 only as a gauge to compare these three countries. He later revised it as "The probability that a dictatorship will die and a democracy will be established is random with regards to per capita incomes, about 2 percent each year….. democracy is almost certain to *survive* in countries with per capita incomes above $4,000" (Przeworski etal. 2000: 273).

[71] Taiwan GDP Per Capita: https://www.ceicdata.com/en/indicator/taiwan/gdp-per-capita
S. Korea: https://www.ceicdata.com/en/indicator/korea/gdp-per-capita
http://www.ca-sme.org/category/Category/list/cid/53

Figure 3.3: Comparative features of South Korea, Taiwan, and China [72]

Compare South Korea, Taiwan, and China			
Features	**South Korea**	**Taiwan**	**China**
Year of Democratization	1989	1996	N/A
Economic Structure	Chaebol (Major consortium)	Heavy MSMEs	Mixed. MSMEs, big corporations, and SOEs
The year +4 when a national SME association was created	1968 (private)	1978 (private)	2010 (government controlled)
GDP per capita (PPP) in 2017 or at the time of democratization in 1985 $ *	$4,391	$9,540 *	$5,867 *
GDP 10-year average annual growth rate in 2017 or at the time of democratization	8.78%	7.87%	8.26%
Historical influence under Confucianism?	Yes	Yes	Yes
Under foreign influence before democratization?	Yes	Yes	No
V-Dem Corruption Index in 2017 or at the time of democratization	0.4714	0.3833	0.6265
History of democratic development	Mostly violent	Mostly peaceful	N/A

[72] The * indicate that the GDP per capita exceeded the threshold of $4,155 (1985 $) which Przeworski (1997) set as the threshold for democratization.

3.1 South Korea (Republic of Samsung?)—strong large enterprises and democracy:

This section presents a concise introduction of the history of South Korean economic development between 1950 and 1980. The focus is on the Korean people's sources of collective action against government corruption and oppression before 1980s. It demonstrates the correlation between the power of large corporations, workers unions, and the country's democratic progress.

3.1.1 Introduction and the puzzle: From 1961 to 1979, when Park Chung-hee was assassinated, the capitalist, market-oriented economic structure adopted by South Korea exerted a positive impact on the nation's economic development, but a negative influence on democratic development. As a result, the center of the Korean economic system is the consortium (*chaebol*), which are groups that combine traditional aristocrats, businessmen, industrialists, and retired officials (Hahm and Plein). [73]

Before 1990, the Korean government had always cooperated with the consortium to consolidate rule. The government lent the chaebol money at cheap rates, jailed and blacklisted workers who tried to organize unions, allowed the companies to earn oligopolistic profits in the domestic market and helped them beg, buy, and steal needed technology from abroad (Song). In this system, on the one hand, the number of large capitalists is small and can be easily controlled by the government. By controlling the consortium's leaders, it also indirectly controls the

[73] A chaebol is a large industrial conglomerate that is run and controlled by an owner or family in South Korea. Some chaebol are one large corporation such as Samsung that covers multiple industries, while others have broken up into loosely connected groups of separate companies sharing a common name. Even in the latter case, each is almost always owned, controlled, or managed by the same family group (Jung, Dong-Hyeon).

The chaebol have also played a significant role in South Korean politics. The chaebol would funnel bribes to politicians and bureaucrats through slush funds and illegal donations. This could help maintain the government's position of power, allowing them to secure contracts for major government projects and provide favorable treatment to the donor firm (Lee, Phil-Sang)

employees of the small and medium-sized enterprises which mostly are subcontractors of the consortiums. On the other hand, the contribution of chaebol to the government's fiscal revenue rises with the growing needs of the government, making the latter collaborate more with chaebol.[74] Authoritarian governments and chaebol then form a solid symbiotic structure.[75] However, this interaction not only formed a symbiotic economic relationship between government officials and the business community, it also had implications for South Korean democratic development, making the process more violent and turbulent (Hahm and Plein)[76].

If the state had almost full control of the economic arena, and chaebol and owners of SMEs had no choice but to succumb to the government; how did South Korea democratized after 1989? [77] The answer: The combined force of labor unions and the growth of a national SME association.

3.1.2 The Source of Collective Action: The Rise of Korean Labor Unions:

It is fair to conclude that the labor movement in South Korea before late 1990 was one of the most militant and dynamic in the world (Minns). Chaebol were loyal to and collaborated with the government, and continue to this day resistant to labor movements. Beginning in the early 1980s, labor movements became a focal point for many streams of opposition to the government, by this point, large-scale engineering, car manufacture, shipbuilding, steel making and other heavy industry had begun to supplant light manufacturing, especially textiles and garments, as the

[74] In Korea, as in Japan, corporate profits have been guzzled by a cash-hungry political system (Koo).
[75] Before 1990, the increasing importance of chaebol families had kept them and the government very personal. Intermarriages between chaebol and political families became common during the 1980s, capped by Roh Tae Woo's daughter's marriage into the family that owns Sunkyong.
[76] Say for instance, in 1981's Kwangju uprising, there were at least 2,000 protesters killed by South Korean Special Forces.
[77] If chaebol had a draconian control over workers before 1990s, what did this system mean for ordinary workers? It meant that in spite of paltry wages they had no recourse if their employer did not pay them on time, or did not pay them overtime, or forced them to work inhumanely long shifts, sometimes twenty-four hours straight. The Korean economic miracle was in essence built on inhumane toils, sweats, and tears of workers. *It had been a hopeless situation until organized labor unions came to the rescue.*

major employers in the Korean economy. These new plants were much larger than before and their workforces were predominantly male (Choi). One consequence of this change was that the concentration of large firms also created a concentration of workers with potential collective power.[78] Even though the government with the full collaboration of chaebol had kept unions under tight control, this situation and the underlying rules changed dramatically during 1980s. Most enterprise unions, old and new, claimed the right of collective action and wage negotiation. Their mission was to carry out collective bargaining and wage negotiation even in the authoritarian government of South Korea (Clifford).

3.1.3 The Collective Power of Korean Labor Unions:

Labor unions in Korea, pushed the authoritarian regime to relax political repression by calling mass strikes in the years after 1985, and they expanded the organizational foundation of opposition movements by making alliances with student and religious groups. Finally, they forced the government to begin the transition to democracy in 1987 by repudiating labor laws that upheld authoritarian repression (Song). The union movement in the late 1980s could be quite aggressive and violent, [79] unionists frequently held managers hostage during bargaining sessions in the late 1980s. Their targets ranged from Hyundai's Chung Ju-Yung to expatriates at Citibank and Barclays Bank (Clifford, p. 12). [80] Although many groups of organized labor were accused

[78] The economy became intensely concentrated. Between 1966 and 1976 the number of firms grew only 10 percent while the average size of the firms grew 180 percent. By contrast, in Taiwan, the number of firms increased by 150 percent but the average size of firms grew only 29 percent.
Source: World Bank, World Development Report 1989. 31. Economist, Third World Survey, September 23, 1989, p. 39;

[79] Union workers often were armed with clubs, armor, and backed by heavy equipment such as trucks, forklifts, and wielding gears. Korean security force proved well-equipped to deal with students in Seoul, but proved insufficient against these tough, militant unionized workers (Clifford p.25).

[80] For instance, in June 1987, Hyundai workers held the company CEO Chung Ju-Yung in a shipyard, and refused to let him go until Chung had agreed to their demands for an independent union. A stunned nation saw pictures of many of Korea's most powerful businessmen at the mercy of their workers with the once all-powerful security forces unable to act. These incidents embolden the whole social movement during that period.
https://biography.yourdictionary.com/chung-ju-yung

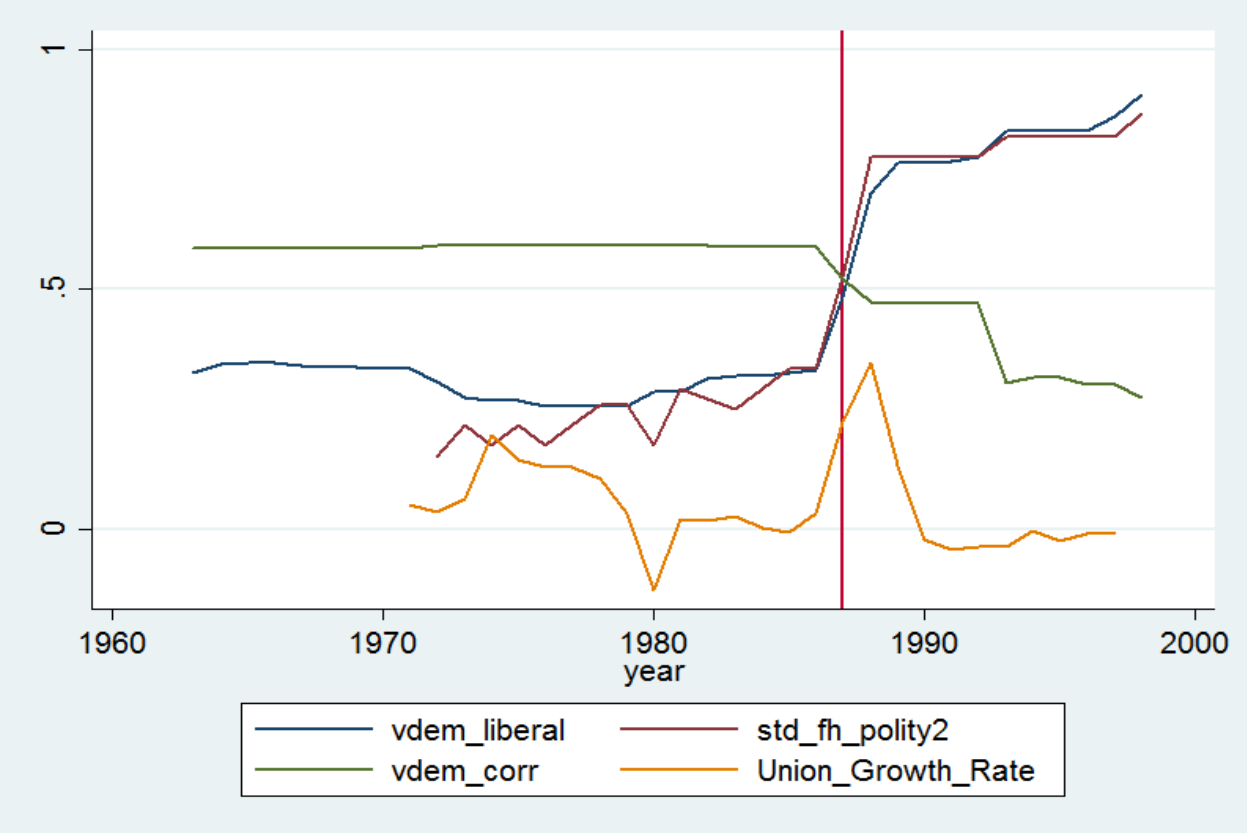
of extremism in the 1980s, it made ordinary people aware of the importance of political freedom and the power of collective social movements. It is fair to conclude that South Korean democratization would not have been promoted without the unions' contribution. [81] Despite repressive practices and legal restrictions, formal and informal barriers to organizing workers; most large firms are now unionized except the Samsung conglomerate. (Choi).

Table 3.2 demonstrates the history of South Korean labor disputes, showing a peak in 1987, followed by a gradual downward trend after. Table 3.3 in the Appendix demonstrates the history of Korean Labor Unions. It shows that South Korean unions have growing consistently in terms of organization rate and members since 1963. Figure 3.2 demonstrates the time-series analysis of Korean labor growth rate, democracy index, and corruption index. It further supports the theory that with increasing collective bargaining power of labor unions, there will be less corruption and higher democratic development, with 1987 as the clear break-point for the trend.

[81] The industrial disputes of 1987 are known as the "Ulsan Typhoon" since they were ignited by violent turmoil in the Hyundai Heavy Industry Co., located in Ulsan. About 1.3 million workers in 3,300 firms all over the country were involved in these disputes. This was unprecedented in Korean labor history. https://libcom.org/history/1987-the-great-workers-struggle

Table 3.2: Labor Disputes in Korea, 1986-1994		
Year	**Working Days Lost (000)**	**Number of Disputes**
1986	72	276
1987	6,947	3,749
1988	5,401	1,873
1989	6,351	1,616
1990	4,487	322
1991	3,258	234
1992	1,528	235
1993	1,308	144
1994	1,484	121
Source: Korean Labor Institute		

Figure 3.2 Time-series study of Korean Labor Union, corruption, and democracy.



3.1.3 The Korean Federation of Small and Medium Business (KFSB):

South Korean SMEs have always played a background role behind chaebol in terms of the collective percentage of national revenue and exports. Table 3.3 shows South Korean SMEs' share in the number of enterprises, employment, production and export, in percent between 1952 and 2004. KFSB was established in 1962 at the behest of, and under the strict control of the South Korean government. It had always been inactive until the early 1980s, under the reign of the "politician-general" Chun Doo-Hwan, KFSB regularly joined hands with the main legislative opposition party (Democratic Korea Party) to put pressure on General Chun to implement measures to reduce corruption. (Yadav, p. 74; Clifford, p.70). [82]

This chapter argues that it was the combined force of citizens, students, labor unions, and the national SME association that pressured President Rho Tae Woo to concede to their demands for more democracy and less corruption in 1987. [83] However, the main driving force was organized labor unions. The collective power of labor unions against corruption and political repression provides a case that supports my empirical findings for Hypotheses One—a lower MSME historical index is likely lead to democratization for LDCs.

[82] KFSB and DKP also published a manifesto demanding that General Chun implement measures to reduce corruption.

[83] Rho's most impactful contribution to democratization was the appointment of Kim Young Sam, an opposition leader, as presidential candidate for the ruling party. This appointment meant the end of authoritarianism strongly backed by the military.

Table 3.4: South Korean SMEs' share in the number of enterprises, employment, production and export, in percentage between 1952 and 2004.

Year	Number of enterprises		Size of employment		Value added		Value of production		Export	
Enter-prises	Small and medium	large	Small and medium	large	Small and medium	large	Small and medium	large	Small and medium	large
1952	95.8	4.2	61.5	38.5						
1960	97.6	2.4	67.7	32.3	57.0	43.0				
1966	98.3	1.7	60.3	39.7	42.5	57.5	45.6	54.4	23.0 (1965)	77.0
1970	97.1	2.9	49.0	51.0	28.5	71.5	30.3	69.7	32.2	67.8
1973	97.0	3.0	46.3	53.7	33.9	66.1	33.8	66.2		
1975	96.2	3.8	45.7	54.3	31.7	68.3	30.7	69.3	34.5	65.5
1980	96.6	3.4	49.6	50.4	35.2	64.8	31.9	68.1	32.1	67.9
1985	97.5	2.5	56.1	43.9	37.6	62.4	35.4	64.6	27.8	72.2
1990	96.1	3.9	61.7	38.3	44.3	55.7	42.7	57.3	45.5	54.4
1996	99.1	0.9	69.2	30.8	47.2	52.8	46.8	53.2	41.8	58.2
1997	99.1	0.9	69.3	30.7	46.5	53.5	46.3	53.7	41.8	58.2
2000	99.3	0.7	74.0	26.0	50.2	49.8	47.4	52.6	37	63.0
2004	99.4	0.6	75.7	24.3	51.6	48.4	48.6	51.4	35.6	64.4

Source: NSO 2008a, KFSB 2008, SMBA 2008
*SMEs with 5 to 200 employees until 1973 and up to 300 afterwards. [84]

3.1.4 Alternative Explanation:

3.1.4.1 American Influence:

The form of democracy Japan enjoys today was imposed by the victorious Americans after the World War Two. Did the United States have had a similar influence on South Korean democratic development? The United States grand strategy during the Cold War in South Korea had two contradictory objectives: to build up South Korea as a showcase for democracy, and as an anti-communist state (Im). These two objectives are not necessarily compatible with each other, the first enabled conditions for incipient democracy, while the second served as a restraining boundary to the development of democracy in South Korea. The overriding concern in Washington was to keep South Korea as a buffer zone against the expansion of Communist

[84] NSO: National statistics office. KFSB: Korea Federation of Small and Medium Business, SMBA: Small and Medium-sized Business Administration.

powers (Shorrock, 1996). All in all, American security interests prevailed over promoting democracy (Johnson, p. 109).

There are two phases of American policy toward South Korea. Before 1990, The U.S. held an equivocal attitude toward grass-root social movements and early strongmen's violation and usurpation of democratic rules. [85] The United States oscillated between the promoter of democracy and the protector of the anti-Communist state and as always the United States went for the latter (Cumings, 1997, p. 384). Those usurpers knew the dilemma of the U.S. foreign policy and took full advantage of it which had formed the limit of American boundary in the cold war period. [86] From the American then commander of South Korea General Wickham's testimony, we now know that President Carter, the champion of human rights, was responsible for American tacit support to Chun's usurpation of power (Johnson, p. 110). A year later, the Reagan administration even rewarded Chun, inviting him as a guest as the first head of state to visit the Reagan White House. [87] Consequently, both Carter and Regan opted to sacrifice human rights to maintain South Korean security for the interest of American grand strategy during that period.

US policy toward military dictatorships has changed since the fall of Marcos in the Philippines. Since then the United States has withdrawn support for rightist military

[85] Here are three examples out of many that The U.S. held a tacit support of anti-democratic events before 1990:
(1) Syngman Rhee (1948-1960) declared martial law in 1962 and amended and implemented draconian laws against the press and the opposition politicians.
(2) Park Chung Hee stopped the constitution and established an outright repressive authoritarian regime in 1970.
(3) Chun Doo Hwan conducted the massacre at the southern city of Kwangju in 1979.

[86] In May 1980, General Wickham readily gave Chun permission to use South Korean twentieth Division to massacre protesting citizens at Kwangju. At Chun's trial 15 years later, Wickham defended himself that all his actions in 1979 and 1980 had been explicitly approved by Washington. https://www.latimes.com/archives/la-xpm-1996-08-29-me-38742-story.html

[87] American then ambassador Gleysteen's telegram also says, " in none of our discussions [with Chun and Blue House Officials] will we in anyway suggest that the U.S. government opposes Korean government contingency plans to maintain law and order, if absolutely necessary by reinforcing the police with army" (Gleysteen, 1999, pp. 224-225)

dictatorships, publicly opposed the use of armed forces in dealing with violent opposition movements, and promoted the civilianization and liberalization of authoritarian regimes in the Third World (Im, p.171). [88] On 23 June, 1987, at the height of democratic protests, President Reagan sent Gaston J. Sigur as a special emissary to Chun to express publicly that the United States adamantly opposed the use of force by anyone and supported peaceful progress toward democracy (Sigur, 1993, p. 10). This means that the United States would not support any military crackdown. This chapter concludes that the democratization of Korea succeeded mostly through its own efforts whereas The United States played an inactive role.

3.1.4.2 Other Explanations:

This chapter argues against the culturalism argument—that Asian workers under the influence of neo-Confucian ideology will be docile and obedient— which has often been used in explanations of economic growth, and the delayed democratization of East Asia. It has never been more elaborated rebutted than in this chapter with the case of the South Korean labor movement. There may be other reasons for this impressive political transformation. One might argue that the persistent threat of North Korea might have impelled South Korea to build a democratic regime as one of the counter measures. However, as stressed by this paper, economic development eventually brings the rise of the middle class—labor union workers included—and thus promotes the awakening of political consciousness. The new Korean middle class, while satisfied with the distribution of material, began to demand the reallocation of political power. To summarize, members of chaebol inadvertently influenced the process of democratization by inspiring resentment against their position in society. To the extent that any "classes" could be singled out

[88] The U.S. Army Commander General Livsey is believed to have told the hardliner military officers that the United States would oppose a coup against Chun. The U.S. Secretary of the State George Schultz said it was necessary to continue talks on the "transfer of power in a democratic manner". The U.S. Congress passed a non-binding resolution calling for resumption of the constitutional talks. Senator Edward Kennedy and others introduced legislation for economic sanctions against South Korea until 'free and fair elections' were held (Gills, 1993, p. 239).

as the most consistent supporter of democratization in Korea, it would be the urban middle class (including students) and white-collar professionals, in coalition with union workers (Koo, p. 494).

3.2 Taiwan (Republic of China)—Strong MSMEs and Democracy:

This section selects Taiwan as a case of a country which has high concentration of MSMEs with the collective power of various business associations can achieve positive democratic development. It presents a concise introduction of Taiwan's economic development. Embedded in this structure was the imbalanced distribution of power between two sub-ethnic groups before 1980. It also explains the sources of people's collective action against government corruption and oppression. Finally, this section examines the reasons why Taiwan's democratic development, in contrast to South Korea's, has been relatively slower but much more peaceful. [89]

3.2.1 Taiwan—Introduction and the Puzzle:

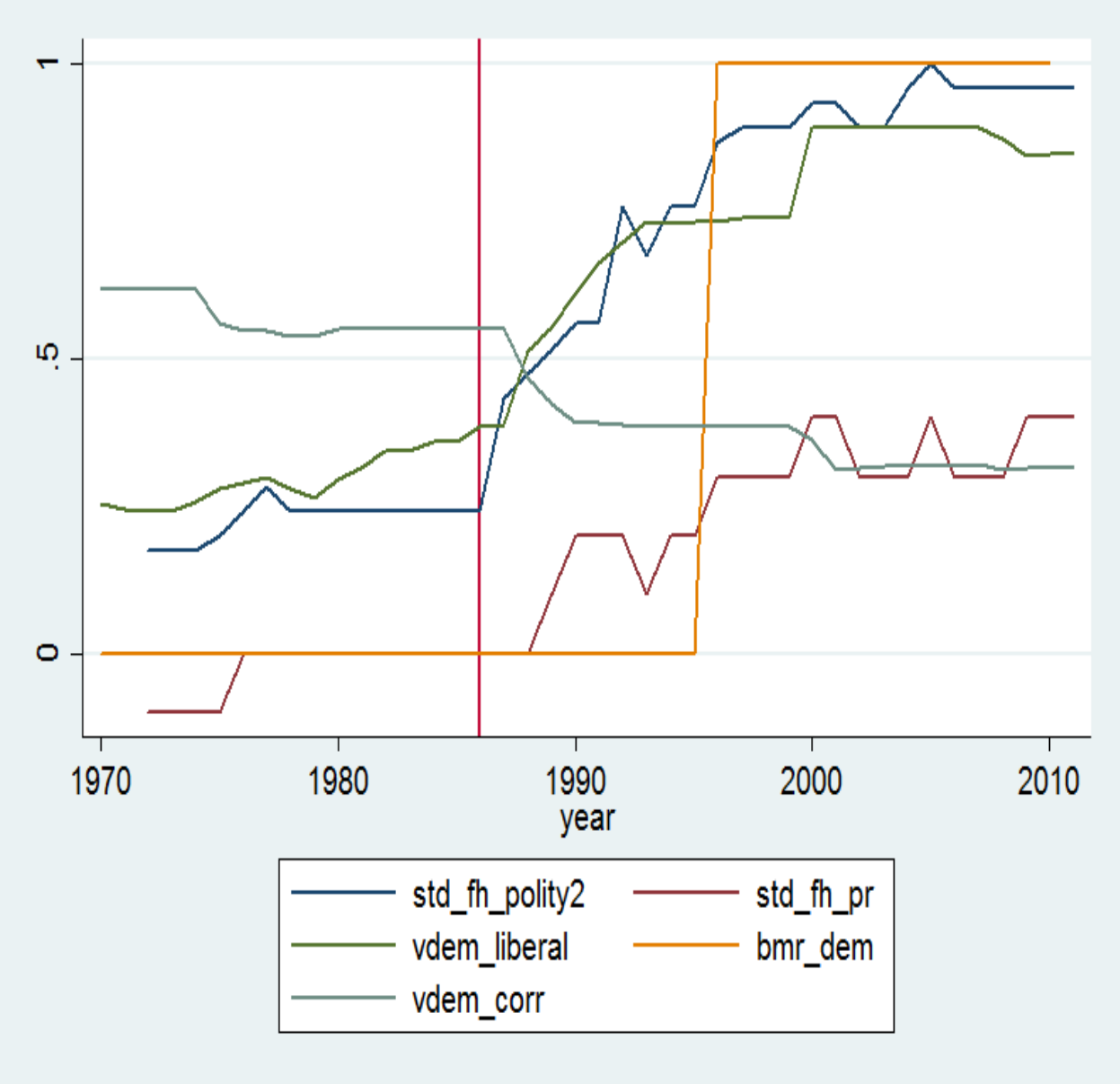
Taiwan's experience of democratization is unusual and Taiwan began confounding theorists of political development more than forty years ago. In the two decades after Taiwan weaned itself off US foreign assistance in 1965, it stood as a counter-example to modernization theories which saw a link between industrialization and democratization. Furthermore, its export-driven economy should have exposed itself to outside influence and been conducive to early democratic development. Przeworski (1997) once set GDP per capita $4,155 (1985$) as the threshold for democratization. Taiwan's GDP per capita passed that threshold in 1984.[90] Given this, why did Taiwan not democratized until 1996? Did this delay have something to do with its economic

[89] Say for instance, in 1981's Kwangju uprising, there were at least 2,000 protesters killed by South Korean Special Forces. In contrast, since 1960s, Taiwan's army and policemen have never fired a single shot in anger against civilians.

[90] https://www.ceicdata.com/en/indicator/taiwan/gdp-per-capita

development model (export and SME driven)? Figure 3.3 shows Taiwan's democratic development progress measured by various standardized democratic indexes. The corollary question to this is how Taiwan eventually democratized in the 1990s and became a stable democracy? As well as, how and why has its democratic development differed from the South Korean experience?

Figure 3.3: Taiwan's democratic indexes:



Note: The red break-line stands for the formation of new political parties in 1986.

3.2.1 Taiwan's economic model:

Taiwan's current economic structure is much closer to a capital dispersion, export oriented, and market-oriented strategy. Since 1959 the authoritarian government and most of the producers had switched from an import substitution model to a market-oriented and export-oriented economic development strategy. The reason for this shift is that Taiwan is not like Latin American countries with large domestic markets which can sustain a second import substitution experiment. Later, this capital dispersion, export-oriented strategy was adjusted (in the early 1970s and early 1980s) due to economic restructuring and world economic fluctuations, but the overall orientation across this period was towards capital dispersion and liberalization of trade (Galenson, 1979). [91]

In contrast to Japan and South Korea, Taiwan's export hero is not a big consortium, nor is it a multinational company as seen in Singapore, but a large number of small and medium enterprises (Kuo, Cheng-Tian. 1994). This paper uses MSME data based on 2015's World Bank Repot; however, since Taiwan (Republic of China) is not a member of many international organizations, Table 3.5 demonstrates Taiwan's SME data based only on Taiwan's source. [92] This table demonstrates that Taiwan's SMEs have always made up 97% to 99% of all enterprises. Further, Table 3.6 in appendix demonstrates that Taiwan SMEs has always made up at least 50% of export values.

[91] Taiwan was also under the pressure of the United States and had to apply for access to GATT / World Trade Organization.

[92] https://www.moeasmea.gov.tw/ct.asp?xItem=353&ctNode=1239&mp=2

Table 3.5 Taiwan's SMEs data:

Industry / SME's %	Commerce	Transportation	Finance, Insurance and Real Estate	Business Services	Public and Personal Services
1994	95.83	94.53	81.99	95.97	99.12
1995	97.87	97.89	89.78	97.99	99.51
1996	97.87	98.06	90.27	98.00	99.43
1997	97.76	97.71	90.68	97.83	99.35
1998	97.77	97.44	90.64	97.79	99.27
1999	97.76	97.54	91.16	97.78	99.26
2000	98.15	97.86	92.81	98.11	99.34
2001	98.33	97.93	93.43	98.24	99.39
2002	98.11	97.32	86.49	98.13	99.28

Data source: Ministry of Finance Taxation Data Center of The Republic of China. Please see details in Table 3.5B in Appendix.

3.2.2 Taiwan's sub-ethnic division and SMEs:

When Taiwan's political reform began in the mid-1980s, it was driven by sub-ethnic division and political injustice rather than by the commonly assumed class-based demands born of economic success. Since the recovered of Taiwan from Japan by China after the end of WWII, those whose ancestors came before WWII have always been referred as "originated in this province" (*benshengzen*, normally translated as "Native Taiwanese" or "Taiwanese") , while those who came after 1945 and their decedents were said to have "originated in other provinces" (*waishengzen*, or "Mainlanders"). [93] Within the Taiwanese group, distinctions among Hoklo,

[93] This chapter refers to the Taiwanese and Mainlanders as "sub-ethnic groups." This is a somewhat controversial term because these two groups of people are all Han Chinese which belong to the same ethnic group. But the two communities behave very much like ethnic groups when it comes to politics: they tended to live near others in the

Hakka and Aboriginal people remained, but the split between Taiwanese and Mainlanders became the island's primary social cleavage. [94] The two groups spoke different languages (most Mainlanders were comfortable with Mandarin, even if it was not their mother tongue, while few Taiwanese had learned the ROC's official dialect before 1945), but the most divisive distinction between them was their unequal access to political influence and power (Cole, 1967). [95]

Although the data regarding the share of business ownerships before 1980 are difficult, if not possible to obtain, most scholars believe that Mainlanders (*waishengzen*) owned a large share of state-owned and large corporations while Taiwanese (*benshengzen)* owned most SMEs (Chu 1989). The state's favoritism toward large and government-owned firms—at the expense of SMEs—was to become an important source of friction between the state and Taiwanese society. Most of the high posts in State-owned corporations were staffed preponderantly with Mainlanders before 1980. Without any government support and protection against corruption, SMEs then turned to the traditional networks that existed in families and in interpersonal relations in order to get help for their capital needs and management. Further, the KMT (Kuomintang—the non-democratic elected ruling party in Taiwan before 1996) would let business prosper if the business rendered its political loyalty for economic gains. Based on this policy, the KMT let small business prosper from access to the world market rather than the domestic market because it desired to protect the latter for its big business collaborators. Many SMEs indeed prospered in international trade and as a result, made the Taiwan miracle possible.

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same group at least before the 1990s, they tend to vote for members of their own group, and their political views tend to be closer to one another than to members of the other group. Even today, that division is salient in all political surveys in Taiwan. For this reason, this chapter has chosen to refer to the two groups as "sub-ethnic."

[94] After 1945, the KMT regime introduced a new population into Taiwan's mix. These were the soldiers, government officials, and their dependents that followed the ROC government to the island. Although they shared the Taiwan residents' Chinese ancestry and contained within their numbers men and women from every corner of China, these newcomers came to constitute a coherent group distinct from the island-born Taiwanese.

[95] Native Taiwanese made of 85% of the population, while Mainlanders made up less than 15% (Copper 2003).

The most obvious fact in these relations between the state and SMEs had been the lack of direct political interaction, unlike the dynamic characterizing state-big business relations. From the perspective of the KMT the scattered export-centric SMEs constituted very little existential threat to the regime. Therefore, the state has not paid serious attention to the trade associations organized by small and medium entrepreneurs (Hsiao, 1993). [96]

3.2.3 The Source of Collective Action—the Combined Force of Associations:

There are two historical institutional elements from Taiwan's politics during the Japanese colonial period that are worth mentioning. The first is the fact that between 1935 and 1945, the Japanese colonial government held elections for half of the city and township councilors. While the other half were appointed by the prefectural governors. The KMT government continued this practice even under the Martial Law Era (Tsai, Hui-yu, 2009). Regardless how limited these elections were before 1990, they provided a solid foundation for grass-root collective action.

This chapter argues that without some forms of elections, no matter how constrained, a transformation to democracy is unlikely for any country. Local elections, even those not free of corruption, breed democracy; they nurture voting habits among citizens, and serve as a source of political power for local leaders. Once local elections are sanctioned by an autocrat, they serve as a springboard for universal suffrage. [97] Even as the search for legitimacy drove the KMT to allow some limited elections, elections were chipping away at the KMT's authoritarian base. The second fact is that under Japanese colonial rule, there existed various sanctioned private, or semi-

[96] More- over, beyond their kinfolk, the Taiwanese characteristically have more resources, more extensive webs of acquaintance and mutual obligation. Mainlanders are especially strong in the textile industries, in milling, and-as mentioned above-in the public sector.

[97] As Bruce Dickson points out, "The evolution of the KMT... shows that elections can play an important role even when they occur in a nondemocratic polity."

private associations such as Farmers Associations, Irrigation Associations, labor unions, Chambers of Commerce, Women's Associations, and industrial and professional groups.

To further its goal of involving every citizen in one or another organization, the KMT government gave its blessing to this wide range of associations, including NASME—the Taiwan National Association of SMEs—active since 1973. Among this array of citizens associations the Farmers Association has always been one of the most prominent, and served as a key institution for mobilizing rural votes in Taiwan (Rigger). Even though today Taiwan is a fully developed industrialized country, before 1980, agricultural industries made up a significant portion of the national GDP and employment. Table 3.7 in the appendix demonstrates the significant role of agriculture in Taiwan's early development. It shows that agriculture industry in Taiwan had employed from 30% to 56% of total employment, and contributed from 10% to 36% of the national GDP, between 1950 and 1980. Given the Farmers Associations hierarchical structure, and prominent economic role, they were well suited for organizing and channeling electoral support.

In addition, the emergence of a national SME business association makes it more likely that private SMEs will publicly voice their concerns on governance issues such as corruption through a formal collective platform. These various associations serve many functions for their members. Their first political function is to help their members signal to key political actors (i.e., the ruling elite and legislative opposition parties) that they are a valuable electoral constituency that can be wooed by catering to their concerns (Rigger, p.77). Second, scholars often note that business associations in autocracies serve as brokers between members and regime officials on economic policy issues (for example, see Schneider 2004 ; Arriola 2012). The third political function a national SME association can perform in electoral multiparty autocracies is to offer its

organizational resources, skills, and capabilities to mobilize societal support for parties that are willing to champion the SME's concerns (e.g., corruption) in the legislature (Cole p.649). Lastly, opposition parties in autocracy will seek the support of these associations because publicly associating themselves with the SME associations' main issue –corruption as a business concern—is a politically safe "electoral investment". Along that vein, for an opposition party being a proponent of the private SME owner's concerns about corruption is also a politically safe strategy for opposition parties. SME associations often take advantage of that situation and piggy-back democratic demands (Yadav, p. 66). [98]

In the case of Taiwan, this chapter argues that once democratic development begins, opposition forces can use the relationship between relatives and friends and from these various associations to easily influence the political mobilization of economic and human resources. Further, because the profits of these small and medium enterprises do not have to rely on the government's privileges, their economic interests and political ideals do not conflict with each other and the people. Due to the large number of small and medium-sized enterprises with their overall economic influence, they become the object of various political forces, and thus increase the diversity of democratic competition. The Democratic Progressive Party (DPP) and the New Party relied on the support of SMEs, various groups of associations, and the general public in relation to the resources of the KMT, which relied on local factions and party (state) monopolies. Even smaller-scale elections, such as those at the township, county, and provincial levels had served as a powerful force for political socialization in Taiwan. These factors explain why Taiwan's democratization process which was completed in 1996, with the public election of a

[98] Yadav and Mukherjee in their 2014 book uses the history of Malaysia and Jordan between 1990 and 2010 as examples of SME associations' taking advantage of the anti-corruption campaigns to piggy-back democratic demands.

civilian president for the first time had been a slower, but also a more peaceful and stable process than South Korea's experience.

3.2.3 Alternative explanations:

3.2.3.1 The American influences:

There should be no doubt that The U.S. played a direct and instrumental role in Taiwan's development through its aid in implementing land reform in the 1950s, and its continuous military protection of Taiwan from the ever-present threat of the mainland. The U.S. also laid the foundation for Taiwan's economic miracle. Did the U.S. also play a significant role in Taiwan's democratic development? The fact is that the U.S. overlooked Taiwan's many undemocratic indiscretions during its promotion of Taiwan as "Free China"—a model of democracy—throughout the Cold War. The Republic of China (Taiwan's official name) did not implement national elections until the 1990s; nevertheless, American politicians and citizens maintained a fascination with and admiration for Chiang Kai-shek and his wife. However, American idealization of Taiwan fostered the expectations of the Taiwanese opposition. The pre-1980's *Tang-wai* (no-party affiliation election candidates) and later the DPP could point to the disparities between the KMT's image and its practices, and mobilize around these injustices. Further, the U.S. prefers to promote landmark elections imposed from the outside such as what occurred in Afghanistan and Iraq recently (Ko, p.42). In contrast, Taiwan achieved democracy via a series of new elections that developed internally and over time (Ko, p.47).[99] This chapter

[99] Fortunately for Taiwan's long term democratization prospects, Chiang Kai-shek ignored the U.S.' tacit calls for immediate national elections, and instead limited them to the local level. National elections implemented under external pressures lack the stability of self-determination, and lend toward a backlash against democracy and its proponents when they fail. Many developing nations tried to democratize too quickly, especially by holding elections prematurely (Copper, p.10)

argues that the greatest contribution the U.S. could make to worldwide democratization may well be to simply lead by example.

3.2.3.2 Other Explanations:

One can apply culturalism theory and attribute the delay of Taiwanese democratization to the anti-democratic nature of Confucianism. The popular *Lee Thesis*, which firmly states that "Chinese politics is destined to remain the same because Chinese or Asian values are incompatible with democracy." [100] Destined to remain the same? This chapter argues that Taiwan's slow but smooth democratization puts to rest the cuturalist form of this argument.

However, Przeworski in 1993 argued that one of the major reasons the Taiwanese regime decided to hold elections was because it needed to mobilize the support of democratic countries in its geopolitical conflict with China, a reason that has less to do with income or other socioeconomic development.[101] This argument though unfalsifiable for lack of any empirical proof, illustrates the complexity of any country's democratic development.

All in all, Taiwan's pre-1980s political situation, in which a minority group (*waishengzen*) dominating most government's top positions was an unnatural, unjust, and unsustainable arrangement. Because of this, the late President Chiang Ching-kuo (1972–1988), in response to grass-root pressure, took the unprecedented step of naming as Vice-President a native Taiwanese Lee Teng-huin in 1982 and permitted the formation of new political parties in 1986. He made those moves not for the people themselves, but rather for their support. He

[100] It refers to the president of Singapore Lee Kuan-Yew. Lee Kuan Yew famously responded to U.S. protests by drawing distinctions between Western and Eastern cultures, and arguing that U.S. values were incompatible with Asian societies.

[101] "For example, dictatorship fell in Taiwan not because it became wealthy, but because Taiwan needed the support of democracies in its geopolitical struggle with China."
http://www.nyu.edu/gsas/dept/politics/faculty/przeworski/przeworski_munck.pdf

realized that KMT as a political party could not have survived without democratic reforms.[102] At the end of this story of people's struggle in Taiwan, the democratic transformation in 1996 was peaceful, no ex-political elites were punished, and ultimately the people prevailed.

3.3 People's Republic of China—a mixed model:

This section introduces the unique economic structure of People's Republic of China and overviews the following distinguishing features:

1. Strong SOEs (State-owned Enterprises) which enjoyed favorite patronage and support from the government and state-owned banks.
2. A significant group of SMEs that contributed the most to national employment, revenues, profits, and exports; but lacked collective bargaining power.
3. A government that possessed, at least in appearance, an unchallenged power in almost every aspect of civilian life.
4. A government plagued by rampant corruption, but, which at least in appearance, enjoyed a solid control of the populace.

3.3.1 Introduction and Puzzles:

Why does this chapter include China as a critical case study? The reasons are obvious:

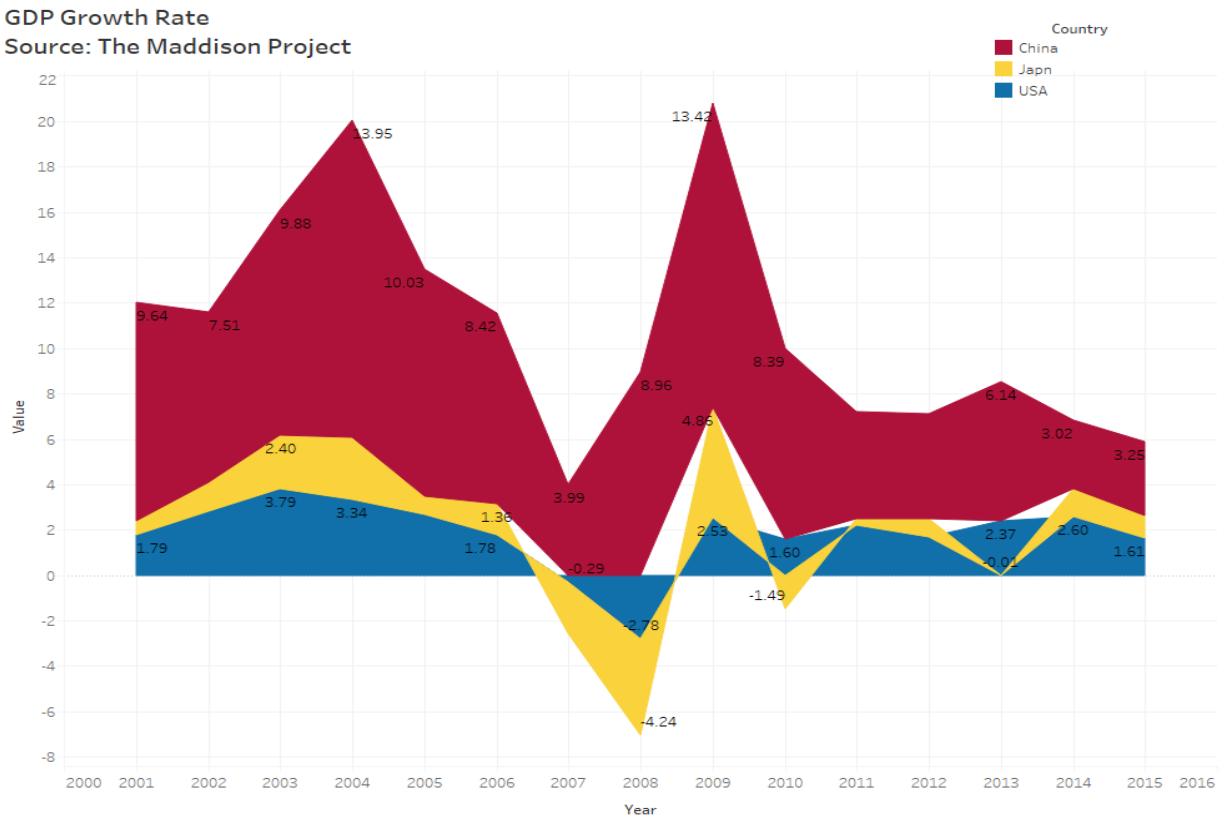
1. China is the largest U.S. trading partner: total U.S.-China trade has gone from $117 billion in 2000 to $636 billion in 2017 with a $376 billion deficit. [103]
2. China is the largest holder of U.S. securities ($1.2 trillion). [104]

[102] Until today, since 1996, KMT has been one of the two democratically-elected major parties in Taiwan that wins control of the legislative "Yuan", and presidency exactly every eight years.
[103] https://www.census.gov/foreign-trade/statistics/highlights/top/top1812yr.html
[104] https://www.cnbc.com/2018/04/05/chinas-1-point-2-trillion-weapon-that-could-be-used-in-a-us-trade-war.html

3. China's more assertive foreign policy and continued military development also have significant long-term implications for U.S. global power and influence.
4. China's autocratic model may form a challenge against the American-built world order (Allison).

China's future will not only impact the U.S., but the world's economic and political development as a whole. It also provide a case that demonstrates under what circumstance a LDC with a relative high concentration of SMEs and no autonomous SME association will likely experience less democratic development. Figure 3.4 demonstrates the economic development in China in comparison with the U.S. and Japan—the two major democratic powers:

Figure 3.2 Economic Developments of China, the United States, and Japan



China has gone through tremendous economic changes. However, there is a recurring question about the nature of China's economy — is it mostly planned or mostly market? A critical component of its economy is the fact that state-owned enterprises (SOEs) lead borrowing, investment, production, and trade. Data from 2013 show the public sector accounting for less than 30 percent of total firms, but roughly 47 percent of assets, 40 percent of revenue, and 40 percent of profits. [105] Following Londregan's and Poole's argument, Chinese business *elites* have too much to lose and the choice is to collaborate with the government for oppression. Lastly, with insufficient development of collective action between SMEs, it is hard to coordinate a coherent force to challenge the government. It is also because SOEs and large private corporations have to rely on the government's privileges, their interest's conflict with the mass and are against any political instability. They become partners with the current regime and cause a negative impact on the diversity of democratic competition. There exist no autonomous unions in China, which made it hard to follow the path of democratic development illustrated by the examples of Poland and South Korea during 1980s.

Since the dawn of the 21st century, authoritarian regimes are getting better and better at avoiding the political fallout of economic growth—so good that economic growth now tends to increase rather than decrease their chances of survival (Mesquita 2003). China's strong and persistent economic growth across the past 40 years, coupled with the help of advanced surveillance technologies encompassing most aspects of civilian lives has added support to the validity of this school of rational choice theory.[106] For a rich and modernized autocratic nation like the People's Republic of China (PRC) to counter citizens' demand for openness and self-

[105] http://sites.utexas.edu/chinaecon/files/2015/06/US-China-Commission_State-Owned-Enterprises-and-State-Capitalism.pdf

[106] Though still a nascent pilot program, China's citizen score will become mandatory by the year 2020, affecting citizens' abilities to get jobs, access the internet, and travel, based on the way the government deems their behavior.

expression requires not only positive reinforcement such as high economic growth, but also coercive and repressive actions by unified and efficient civil and military institutions. Governments that perform effectively will be sustained over time, regardless of regime type (Alvarez et al. 1999). Furthermore, political performance does not reflect economic success, regime characteristics, or political values embraced by a government.[107] This section aims to answer the following puzzles:

1. What make Chinese autocracy so unique—Capitalism with Chinese Characteristics or Capitalism without Democracy?
2. What factors contribute to China's current economic and political characteristics?
3. How long can this type of economic model last?
4. What is the future of political development in China?

3.3.2 Adaptive institutions and corruption:

The PRC's reliance on SOEs for economic development as well as its lack of organized social movements makes collective actions to counter-balance state power difficult. This paper is not claiming that China is unique compared to all other nations, but it does stand out as one of the very few large and non-oil exporting *authoritarian* regimes with high economic development. We cannot deny that there are many problems facing China and some of them may really cause serious existential problems for it. The main challenge for the CCP is how to regulate political conflicts. There are two major sources of political conflicts:

1. Adaptive institutions vs. formal institutions.
2. Corruption vs. people's interest.

[107] Kugler and Tammen, 2012

3.3.2.1 Adaptive institutions:

Any student of comparative politics should know the importance of institutions to a country's political development. This chapter defines formal institutions as "Rules, regulations, policies, and procedures that are promulgated and meant to be enforced by entities and agents generally recognize as official." [108] The function of a formal institution is to provide predictability, stability, and trust between the state and its citizens. Since Deng Hsiao-ping's reform in 1979, the growth of China's private industries have bloomed significantly. Table 3.8 in the appendix demonstrates the rapid growth of China's private industries. Kelly Tsai in her book "Capitalism without Democracy" describes these private industries as having adopted "adaptive institutions" as a response to the chasm between formal institutions and practical interests and desires. The functions of this new type of institutions are to provide actability, accessibility, flexibility, and "efficiency" to their members. [109] Granted that they have formed a challenge to the central government's authority; however, her examination of the micro-foundations of China's institutional flexibility confirms that private entrepreneurs have not organized themselves to demand representation in formal political institutions, much less demanded a transition to democracy. Informal interactions and adaptive strategies at the local level have contributed to the elasticity and durability of China's formal institutions at the national level (Tsai, pp. 152 -168). Most business owners are finding ways to have their needs met without demanding democratic solutions; therefore, even if China were to develop a capitalist class, there is no reason to expect that it would lead or ally with other classes in pushing for political changes. This chapter agrees

[108] This definition draws from Helmke and Levitsky (2004, p.727), but it also includes public policies because they typically have institutional consequences.

[109] Tsai illustrates three ways that China's private firms use to circumvent the central government's inflexible, constraining, and unreasonable rules: Pseudo SOEs, Pseudo FIEs (Foreign Invested Enterprises), and Shadow Banking. She calls them "wearing the red hat (dai hongmaozi)."

with her assessment that China's adaptive institutions do not pose a threat to regime durability because they are not truly autonomous from the state itself.[110]

3.3.2.2 Corruption:

Since 1979, the CCP (Chinese Communist Party) has implemented a policy allowing the selling of SOEs to private business. This decentralization process has enabled the Chinese ruling elites to create an environment enabling them to convert state-owned assets into their private property. Decentralization without accountability can greatly exacerbate corruption at the local level.[111] The natural result is that the state continues to virtually own the most valuable assets—land, mines, monopolistic SOEs—that are subject to systematic theft by the ruling elites. As a result, structural corruption has brought citizens resentment and consequently challenged the CCP's legitimacy.

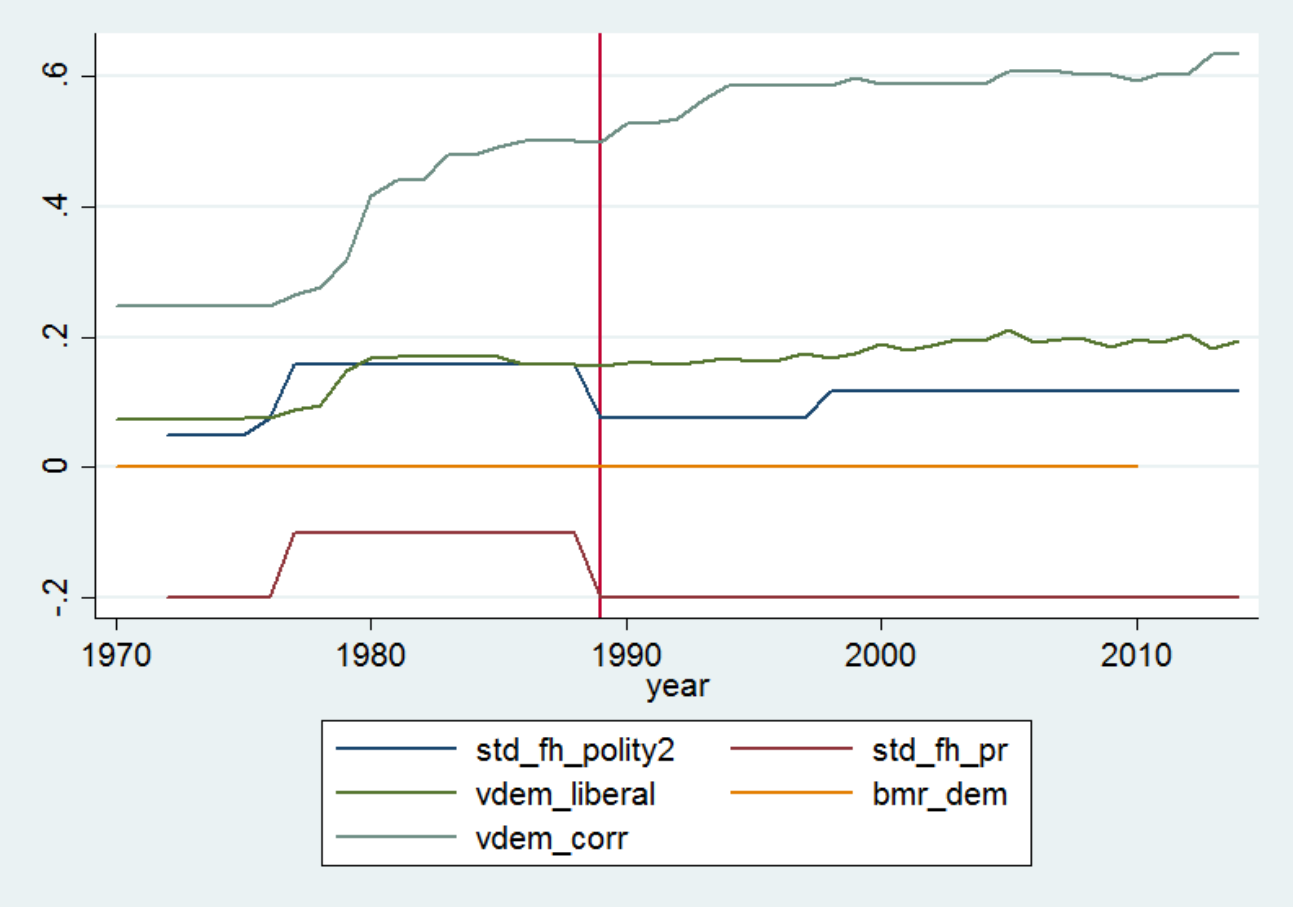
For self-preservation, President Xi Jing-ping has conducted a massive anti-corruption campaign since 2012. So far, the campaign has snared more than 1.3 million officials at various levels, from the elite "tigers" to the ordinary "flies". [112] Not only the spread but also the magnitude of corruption is stunning. [113] Figure 3.5 demonstrates the correlation between China's corruption index and its various democratic rating. It clearly showed the deterioration of China's corruption problems but also the invariant and stagnant growth of its democracy. This chapter

[110] Tsai concludes her book by stating "That is why we can have capitalism without democracy, political change without regime change, and, indeed, capitalists in a communist party."
[111] Odd-Helge Fjeldstad (2003) and Paul Seabright (1996): pp.62-45
[112] http://www.chinafile.com/infographics/visualizing-chinas-anti-corruption-campaign

[113] One case against one of the Chinese politburo's member Xu Caihou: "It took several trucks to cart away his loot—a ton of cash (roughly *100 million yuan*), gold bars, jewelry, rare jade, and valuable artwork."
"国贼徐才厚查抄内幕" [Inside story of the search of the house of Xu Caihou, thief of the nation],凤凰周刊, http://chinadigitaltimes.net/chinese/2014/11/凤凰周刊｜国贼徐才厚查抄内幕/.

therefore argues that it is highly doubtful that President Xi's top-down policy with no grass-root collective support has any long-term impacts on China's corruption problem.

Figure 3.5: China's corruption and democracy indexes:



Note: The break-line reflects 1989's the Tiananmen Square Protests

Pei Min-xin in 2016 argued that the mitigation of corruption in China is unthinkable without severing its close link with decentralization and partial privatization of public properties. However such an institutional arrangement constitutes the core of Chinese capitalism and the very foundations of the regime's monopoly of power. As for China's democratic future, he stated that even a revolutionary overthrow of the old order may not usher in the dawn of a liberal democracy. "The legacies of crony capitalism—great inequality of wealth, local mafia states, and the entrenchment of privileged tycoons—will enable those who have acquired enormous illicit

wealth under the old regime to wield outsized political influence in a struggling new democracy that will have poor odds of survival. (Pei, 2016, p. 267)"

3.3.3 Conclusion and policy implication:

As emphasized through this paper, a transformation to democracy requires collective action from citizen groups, combined with the final concession of ruling elites. China does not seem to present any source of such a necessary condition. Furthermore, opposition groups, even after resolving collective action issues to challenge the ruling regime, must be prepared to risk conflict as they seek to replace the status quo. This chapter concludes that the CCP is fully prepared to deal with such a future if it ever happens.

There are about five thousand mass eruptions every year, peasants protesting that land is being taken from them by corrupted officers and collaborating developers, city dwellers complaining that they cannot breathe the air, etc. Nevertheless, this analysis observes that these mass protests aim only to express their personal grievances, but lack coherent demands for political reforms. Further, China's successful and near omnipresent application of advanced surveillance technologies has made any collective and organized rebellions against the CCP highly unlikely. Since the Tiananmen Square Protests in 1989, the CCP has developed well-coordinated actions against such an organized social movement. My prediction is that the Chinese leadership will continue to institute new mechanism of regular conflict resolution. As a result, this analysis predicts that the CCP will survive; that a Westernized democracy is not a likely scenario in China, and finally, that a hardening authoritarian rule is likely to be forthcoming.

Above all, many Chinese fear the dramatic drop in living standards and economic prospects that transpired in post-communist Russia. Just as Louis XV reportedly said, "*après moi, le deluge* (after us, deluge of blood)," [114] so too do the CCP's propaganda agents emphasizes that if it were to be removed, China would crumble. This presents challenges to would-be democratizers: Not only do they face resistance from the government; they also face indifference and even resentment from those in society who believe the country is already moving in the right direction. Dissidents within China are isolated, their voices suppressed by the Party's censorship and oppression, and their support limited within society. Even dissidents in exile lack cohesion, instead competing with each other for visibility and stature. Most Chinese are therefore willing to wait for further "democratization" and do not support overthrowing the status quo. The Party has been so successful in repressing threats to its monopoly on political power that China lacks a well-organized opposition, a social group, or an individual who represents the popular desire for change.[115] In addition to China's concentration on SOEs (Huang) and ever-present corruption (Pei 2016), China is geographically so immense with a highly uneven distribution of wealth and population that is hard to coordinate a coherent force to challenge the government at a national level. Based on these collective factors, a revolution is unlikely. When people see their incomes rising with the government-imposed perception that their country is becoming increasingly "democratic"; it is not a context in which revolution is to be expected.

[114] The expression has two possible meanings: "After me, the deluge will come", asserting that if the revolution ended his reign, the nation would be plunged into chaos; or "After me, let the deluge come", implying that he does not care what happens after his disappearance. http://tradicionclasica.blogspot.com/2006/01/expression-aprs-moi-le-dluge-and-its.html

[115] These comments not only based on the aforementioned literature, theirs and CCP's surveys; but also my personal experience in China.

One alternative explanation of China's lack of democratic progress was because China is a single party regime and a single party regime is more resilient than other forms of autocracy (Geddes, Barbara). However, the government in Taiwan had also been a single party regime before 1996. The KMT was a nationalist revolutionary party which had been supported by the Soviet Union, and it was organized on the Leninist principle of organization (Fenby, p.504). Taiwan followed a different path of political development than China due to those factors mentioned in the previous sections in spite of KMT's single party system.

This chapter concludes that even though South Korea, Taiwan, and China have distinctly different economic development models; their history of democratic development supports this paper's theoretic arguments that a high concentration of MSMEs has a negative correlation with LDCs' democratic development unless they can resolve the collective action problem with organized and cohesive associations.

These findings suggest four important policy implications. First, an autocracy is more likely to democratize if it has some level of electoral system in place as demonstrated by the case of South Korea and Taiwan. This chapter argues that without some form of elections no matter how constrained, a transformation to democracy is unlikely for any country. Conversely, local elections, even those not free of corruption, breed democracy and eventually will expand to some form of national suffrage. Therefore, one can argue that even the currently limited village elections that are practiced in China and some African countries may hold some hope for a more democratic future.

Second, the government in an LDC should encourage MSMEs development because it may serve as a base for smooth political development.

Third, autonomous non-governmental organizations of whatever kind nurture people's collective bargaining power against official corruption and oppression. An autocracy that encourages them ensures a long-term and peaceful political development.

Finally, Western countries, especially the U.S., should avoid promoting externally imposed landmark elections in LDCs. A more productive policy to achieve democracy is through slow-progressive elections that develop internally and over time. National elections implemented under external pressures lack the stability of self-determination, and tend toward a backlash.

Chapter Four

Conclusion and Policy Implications

This paper contributes to the discussion of economic development and democracy by evaluating two major questions. First, what is the relationship between micro-small-medium-enterprises (MSMEs) and democratic development? Second, through what mechanism do MSMEs impact democratic development in LDCs? This paper derived a set of testable hypotheses to answer these questions in previous chapters. The analysis presented in the previous chapters also raises the following questions: What are the main theoretical and empirical contributions that emerge from my empirical findings? What are the broad substantive implications of the insights presented in each chapter? This concluding chapter will address these questions. The chapter begins with a summary of the theoretical arguments and empirical results, and is followed by a discussion of the paper's main theoretical and empirical contributions. Finally, it will discuss some implications of these findings and the various ways in which the research presented in this work can be extended.

4.1 Summary and Discussion of Findings

Chapter one began by laying the foundation for the new theoretic framework proposed in this paper. It examined Hypothesis One—for LDCs, the more micro, small and medium enterprises (MSME) a country has as its main economic development force, the lower its level of democratic development is expected to be. This chapter explained and justified the approach and explored the proposed model. Further, it explored why the research results are important both to current academic researches and evaluated the real-world implications of these findings. Chapter one also demonstrated a statistically, and substantively significant negative correlation between the concentration of MSMEs in LDCs and democratic development.

A corollary question raised by these findings, is through what mechanism do MSMEs impact LDCs democratic development? The central theoretical claim of this paper is that collective actions problems (Olson, 1971) amongst MSMEs make them a weak collective actor in interactions with the government, and thus encourage them to engage in corrupt relationships with the government to advance their goals. The weakness of the decentralized business sector keeps them from holding LDCs governments accountable. Further, due to the collective action problems encountered by MSMEs, they often are relative passive in democratic contests. Therefore, a related question to this is: is there a correlation between the level of corruption in LDCs and their democratic development? Chapter two took a constructive approach to democratic transitions by examining whether MSMEs have an effect on corruption and consequently impact LDCs' level of democracy conditional on the mechanism of collective action. Chapter two demonstrated via empirical evidence that, for LDCs, more corruption is positively correlated with a lower level of democratic development. [116] Further, since the measurement of levels of democracy is a contested issue this chapter employed seven reputable and well-accepted democratic indexes in its statistical models. All models with consistent results found a negative statistical and substantive significant correlation between the level of corruption in LDCs and their democratic development.

Why do some LDCs rulers take genuine measures to tackle corruption while other leaders remain indifferent to rampant corruption problems? What are the main political factors that drive some LDCs to curb corruption? Chapter two offered a comprehensive theoretical framework to answer these questions and rigorously tested the hypotheses derived from this framework. This

[116] Model 6 in testing Hypothesis 2.1 (*vdem_egaldem*, range: 0.05 to 0.7, STD: 0.1173) reveals that an increase of the level of corruption in a country (*vedem_corr*, range: 0 to 0.977, STD: 0.2969) by one unit decreases the democratic index by 0.380717 units. Conversely, an increase of *vedem_corr* by one standard deviation decreases vdem_egaldem by 96% of a standard deviation.

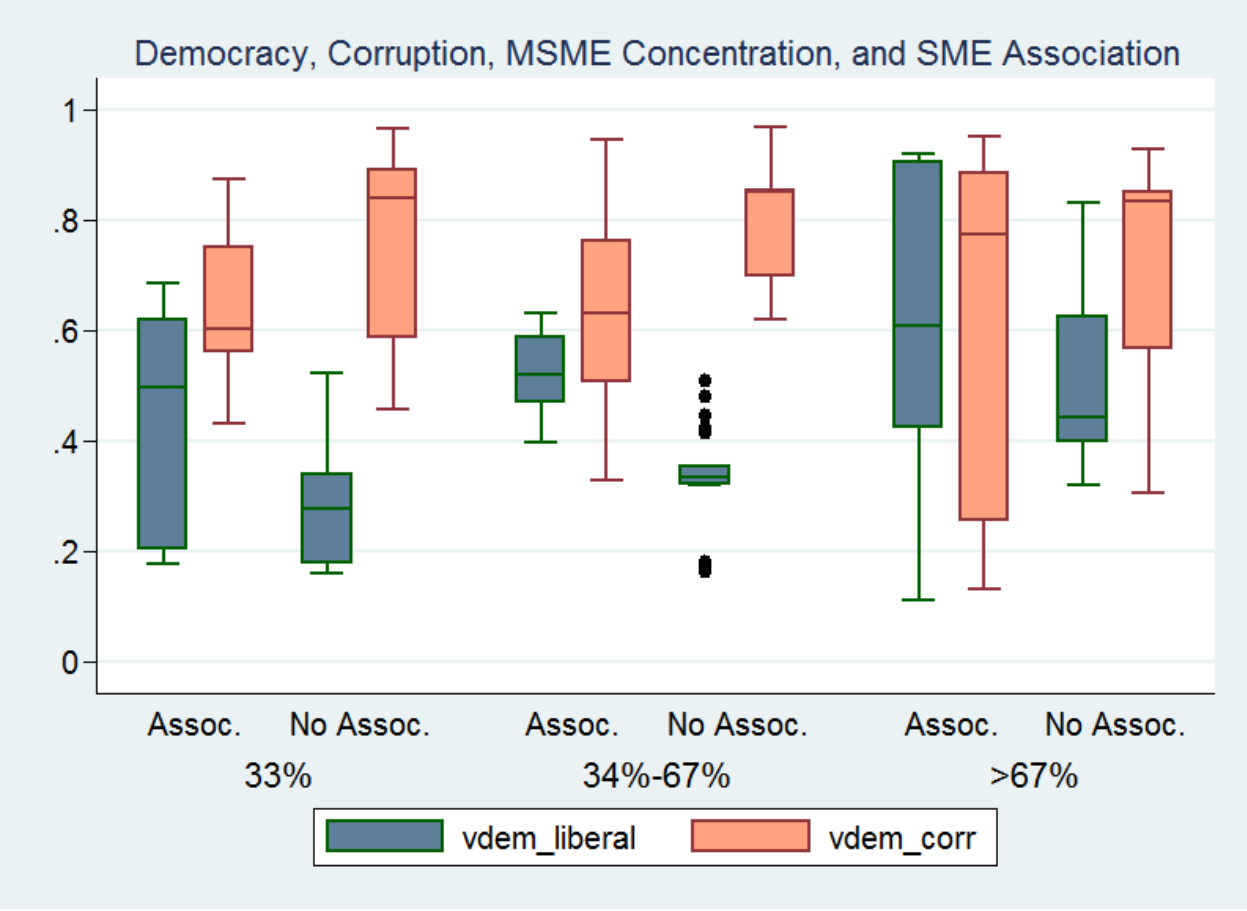
chapter demonstrated that the level of MSME concentration is *positively* and significantly correlated with the level of corruption in LDCs. It further argued that this corruption is a result of MSME's weak capacity for collective action. Chapter two suggested a viable solution to this collective action problem, by demonstrating that the presence of a national business association organized by, and representing private-sector small-and medium-scale firms incentivizes autocratic elites to curtail corruption, and consequently leads to a higher level of democratic development. [117] As individuals with few political connections to ruling elites, MSME owners are "outsiders" to the political establishment. Private MSMEs are also cash-poor businesses that do not have the financial wherewithal to bribe policymakers for special favors. Consequently, MSME owners have strong incentives to first form a national SME association and then use this association to put pressure on LDCs ruling elites to curb corruption.

The findings in chapter two specifically suggested that the concentration of MSMEs alone will not reduce, and sometimes actually encourage corruption across LDCs. This chapter explained via statistical analyses, how organized societal demand through NGOs such as national SME associations can change the behavior of elites, and consequently influence political institutions in LDCs. Further, autonomous non-governmental organizations of whatever kind nurture people's collective bargaining power against official corruption and oppression. An LDC that encourages them ensures the potential for long-term and progressive democratic development.

[117] Model 4 in testing Hypothesis 2.5 (*vdem_partipdem*, range: 0.0285774 to 0.5917552, STD: .1002151) reveals that an increase in the level of the interactive term between MSME per 1000 people and SME association (*MSME_1000*sme_assoc*, range: 0 to 200.67, STD: 26.70039) by one unit *increases vdem_partipdem* by 0.0028732 units, more than 12 standard errors away from 0. Conversely, one standard deviation of increase of *MSME_1000*sme_assoc* increases more than 76% of a standard deviation of vdem_partipdem (participatory democracy index).

The box-plot in Figure 4.1 further evaluates the relationships among democracy, corruption, MSME concentration, and SME association vividly. It breaks down the MSMEs concentration into three categories. The X axis represents the concentration of MSMEs in LDCs with higher percentage values indicating larger concentration of MSMEs compared to the total observations, grouped by the existence of an association. It shows that an LDC is more likely to have a higher level of democratic development if it has a national SME association regardless of the level of MSME concentration. Conversely, an LDC is more likely to have a lower level of corruption if it has a national SME association, at least for the lower two categories of MSME concentration.

Figure 4.1



Note: The Y axis indicates standardized corruption and democracy**.**

Figure 4.2: MSMEs collective action, corruption, and democratic development

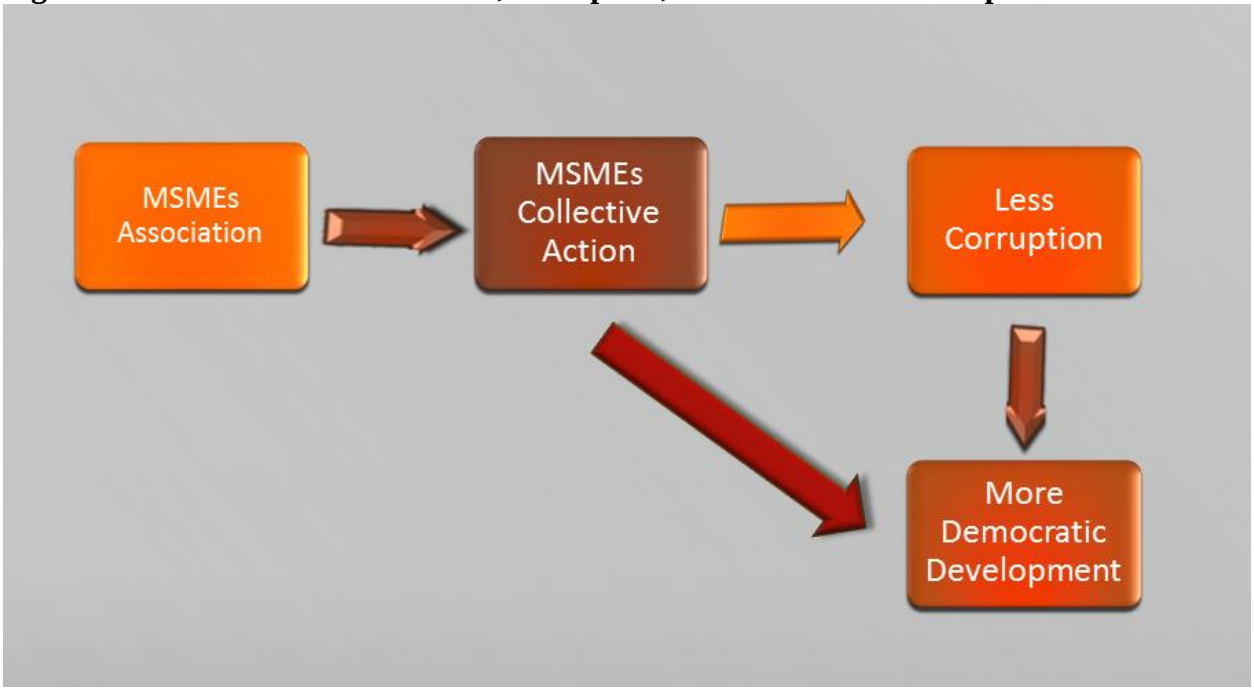


Figure 4.2 further demonstrates the theoretical relationship underlying the empirical results, suggesting that through collective action, the existence of an SME association has a significant marginal effect on democratic development in LDCS.

Chapter three built further support for these arguments and explored the underlying mechanisms through case studies comparing and contrasting MSMEs and democratic development among South Korea, Taiwan, and China. It categorized the South Korean economic structure as dominated by large industrial conglomerates (*chaebol*). This chapter argued that it was the combined force of citizens, students, labor unions, and the national SME association that pressured the government of Rho Tae Woo to concede to their demands for more democracy and less corruption in 1987. However, the main driving force was organized labor unions. The collective power of labor unions against corruption and political repression provides a case that supports the empirical findings for chapter one's hypothesis—a lower MSME historical index is likely lead to democratization for LDCs.

In contrast, Taiwan's economic structure has always been much closer to a capital dispersion, export oriented, and market-oriented strategy. This chapter identified two conditions that incentivized the KMT to concede to people's demand for democracy—the gradual development of a directly elected multiparty legislature that contains de facto opposition parties, and the presence of various non-government associations. The source of collective power originated from Taiwan's various non-government associations. This chapter further argues that without some forms of elections, no matter how constrained, a transformation to democracy is unlikely for any country. Local elections, even those not free of corruption, breed democracy; they nurture voting habits among citizens, and serve as a source of political power for local leaders. Once local elections are sanctioned by an autocrat, they serve as a springboard for universal suffrage.

As emphasized through this paper, a transformation to democracy requires collective action from citizen groups and a nationally elected legislature combined with the final concession of ruling elites; however, China does not seem to present any source of such a necessary condition. Furthermore, opposition groups, even after surmounting collective action issues to successfully challenge the ruling regime, must be prepared to risk conflict as they seek to replace the status quo. Chapter three predicted that the Chinese leadership will continue to institute new mechanism of regular conflict resolution. As a result, this analysis predicts that the CCP will survive; that a Westernized democracy is not a likely scenario in China, and finally, that a hardening of authoritarian rule is likely to be forthcoming.

4.2 Theoretical Contributions

The theoretical framework presented in this work provides a systematic explanation of the dynamics of MSMEs, corruption, and democratic development in LDCs. There rarely exists an empirical study on the relations between MSMEs and democratic development in LDCs. Thein empirical contribution of this paper is that its statistical tests are among the first (to my knowledge) to evaluate claims about MSME, corruption, and democratic development in LDCs in a comprehensive time-series cross-sectional (TSCS) data. This research is innovative because conventional understandings of democratization and the structure of business relations would suggest that higher numbers of MSMEs should be linked to a higher likelihood of democratization. While other studies on this topic are mostly based on deductive reasoning with only anecdotal evidence. They argue that large companies and state enterprises are expected to collude with the government to maintain the status quo. While the decentralization and diversity of MSME's will limit their use in democratic suppression, and may in fact provide support for opposition positions that hold the government accountable. To summarize the previous literature, due to the large number of MSMEs with their overall economic influence, they become the object of various political forces, and thus increase the diversity of democratic competition. This paper aims to test and disprove this established theoretical assumption, thorough robust empirical analysis.

Since this paper has chosen a topic that few if any previous researches have fully addressed, it has little recourse but to rely on its own theoretical design, data analysis, and qualitative reasoning to link pertinent elements together. Ultimately it demonstrates that there is a negative correlation between MSMEs and democratic development, and that it is through the

problems of corruption, and government suppression that the former has a negative impact on the latter.

This paper argues form a collective action perspective that what may ultimately keep actors from maximizing their own self-interest and acting in the long-term interests of the common good whether they expect others to also act for the common good. It takes a constructive approach to democratic transitions by examining whether MSMEs may have an effect on corruption and consequently impact LDCs' democratization conditional on the mechanism of collective action. The MSMEs' collective action problem thus works through the intervening variable of individual members engaging in corruption action. If so, what measure can resolve this collective action issue? A reasonable suggestion is that disenfranchised members of MSMEs can induce the elites to make credible commitments to curbing corruption only under conditions that facilitate collective action. Along that vein of reasoning, this paper aims to provide a viable solution. It demonstrates that the presences of a national business association organized by MSMEs will incentives autocratic elites to curtail corruption.

This paper also made a significant contribution in quantitative analysis by employing the most appropriate models with various stringent robustness tests. A common criticism of quantitative analysis is that it overly simplifies the complex social reality. The most obvious simplification is that a quantitative mode assumes that independent variables are independent among with regard to each other. This leads to the spurious assumption that the an independent variable has an invariant effect on a dependent variable regardless of the interaction of each independent variable with other independent variables. This paper resolves this issue by introducing an interactive variable which combines the effect of MSME concentration and the

existence of SME association. Such a research design is quite pertinent and essential to quantitative inquiries on MSMEs and democratic development in LDCs.

Further, the definition and measurement of democracy is a contested issue; therefore, this paper employs seven reputable and well-accepted democratic indexes to examine the relations between MSMEs and democracy, corruption and democracy, SME association and corruption, and SME association and democracy. Five of seven models that employ various democratic indexes show a positive and significant correlation between democracy indexes and the interactive effect of MSME concentration and SME association. To summarize, this paper's main theory is that for LDCs, MSME's collective action problems lead to more corruption and less democratic development, and the existence of a national SME association leads to a lower level of corruption and more democratic development. Overall, this paper concludes that the theory is sufficiently supported by quantitative analysis and that even though a higher level corruption likely leads to a lower level of democracy, having a national SME association has a positive impact on a LDC democratic development.

This paper also contributes to a better conceptual understanding of LDC politics by introducing MSMEs as a key set of actors in this literature. Earlier literature on autocratic politics typically divided up society into "elites" and "the masses" and built their analyses on this conceptualization of the polity. Further, institutions have been consistently identified as one of the most important influences shaping corruption patterns and levels in democracies (Rose-Ackerman, 1999; Golden and Chang, 2006). This paper considers MSMEs and other non-government organizations as important institutions in an LDC's political development. It is the ability to identify how preferences differ across different business institutions—large consortium vs. MSMEs, large consortium vs. labor unions, business owners vs. labors—that gives this

research analytical leverage. Further, by identifying the precise conditions under which MSMEs are able to overcome their collective action—the concentration of private MSMEs leading to the formation of an SME association—this paper is able to demonstrate that while private MSMEs' preference may be to address the corruption problem; their lack of collective action power hampers their ability to actually achieve that goal. Under such a condition, an alliance between private MSME businesses to form a national association can exert anti-corruption pressure on elite rulers. Consequently, such a mechanism also applies to the collective power of SME associations for organized action to demand for democratic reforms.

Apart from the statistical analysis, the comparative study of South Korea, Taiwan, and China and the quasi-experimental research design employed to analyze them helped us evaluate the theoretical arguments in previous chapters. The case study aims deepen this analysis and to answer this question: Even though these cases have different economic development models that have achieved mostly equal economic success, why has the history of each country's democratic development been so different? This paper offers an answer: Since a transformation to democracy requires collective action from citizen groups and a nationally elected legislature combined with the final concession of ruling elites, South Korea and Taiwan both possess these necessary conditions whereas China possess none.

4.3 Policy Implications

What are the broad substantive implications of the insights presented in each chapter? This paper's findings suggest five important policy implications. First, an autocracy is more likely to democratize if it has some level of electoral system in place as illustrated by the cases of South Korea and Taiwan. This chapter argues that without some form of elections no matter how

constrained, a transformation to democracy is unlikely for any country. Conversely, local elections, even those not free of corruption, breed democracy and eventually will expand to some form of national suffrage. Therefore, one can argue that even the currently limited village elections that are practiced in China and some African countries may hold some hope for a me democratic future.

Second, the government in an LDC should encourage MSMEs development, not only for economic reasons but also because it may serve as a base for smooth political development in the future.

Third, autonomous non-governmental organizations of whatever kind nurture people's collective bargaining power against official corruption and oppression. An autocracy that encourages them ensures a long-term and peaceful political development. Conversely, Mesquita argues that for those who depend on a small coalition, good policy is bad politics and bad policy is good politics; therefore, one can therefore argue that, based on this paper's policy implications, an autocracy should disrupt NGOs for its small coalition's benefits. However, this is the nature of any scientific inquiry.

Fourth, Western countries, especially the U.S., should avoid promoting externally imposed landmark elections in LDCs. A more productive policy to achieve democracy is through slow-progressive elections that develop internally and over time. National elections implemented under external pressures lack the stability of self-determination, and tend toward a backlash.

Finally, a mature and stable democracy has many causes; however, a less developed country may have a plethora of options to reach its unique national goal. One tested route to take, as demonstrated by many rising Asian countries, is to encourage, protect, and sponsor its MSME

development as the first step to reach stable economic growth. With a healthy and stable economy, political development will eventually follow.

4.4 Discussion:

There are three areas that this paper has not examined fully yet: First, granted that the coordination of SMEs comes from owners, but labor should also have a stake. One can argue that labor is also frustrated with corruption. It should be a promising and worthwhile topic for future researches to see if the interaction of MSME with labor coordination would offer us a similar (pro democracy, anti-corruption) result to the MSME*SME Association variable. The challenge is to find operationalized variables to measure labor's preferences, collective bargaining power, and its interaction with business owners.

Second, future researches should devise a measurement on government's technical surveillance power such as the China's Citizen Score System, and its impact on collective action of non-government private institutions. Since the dawn of the 21st century, authoritarian regimes are getting better and better at avoiding the political fallout of economic growth—so good that economic growth now tends to increase rather than decrease their chances of survival. China's strong and persistent economic growth, coupled with the help of advanced surveillance technologies encompassing most aspects of civilian lives may have established a formidable barrier to counter citizens' collective demand for openness and self-expression.

Finally, Economic Growth scholars have extensively analyzed and still continue to debate whether economic growth in democracies is higher than in autocracies or vice versa (e.g., Barro 1996 ; Przeworski et al. 2000 ; Acemoglu and Robinson 2006). Since this paper, through extensive empirical studies, has established the relations between MSME and democratic development, MSME and corruption, corruption and democratic development, SME association

and corruption, and SME association and democratic development in LDCs; future research should revisit the relationship between MSMEs and economic growth, corruption and economic growth, SME association and economic growth, and democratic development and economic growth in order to explore whether the inclusion of MSMEs as political actors alters these findings.

Appendix:

Case-Selection Typology (Gerring and Lieberman, p. 12)

TYPES, SUB-TYPES	*SELECTION CRITERIA*										*RESEARCH GOALS*							
	Data	*Ind*	*Rep*	*N*	*D*	*X*	*Z*	*Y*	*Desiderata*	*Ex ante*	*Scope*	*D*	*X*	$\underline{X} \not\rightarrow Y$	$X \rightarrow Y$	$\underline{X} \rightarrow Y$	*M*	*aX*
1. Representative									*A case that exemplifies a larger population*									
a. Random	•	•	•	1+					Random draw	•								
b. Typical	•	•	•	1+	•				Mean, mode, or median	•		•						
c. Conforming	•	•	•	1+		•		•	Min(ε); where $Y=aX+b\underline{Z}+\varepsilon$	•								•
d. Diverse	•	•	•	2+	?	?	?	?	Max(Var$\underline{D}$, Var$Y$, Var$X$, Var$\underline{X}$, VarX^2Y, or Var$\underline{X}^2$Y)	•	•	•				•		•
e. Census	•	•	•	2+					All cases within a population or sub-population	•						•	•	•
2. Anomalous									*A case that does not fit, or might not fit, extant theory*									
a. Idiographic	•	•		1+	?	?	?	?	Intrinsic or theoretic significance			•				•		
b. Outcome	•	•	•	1+				•	Max(Var$Y$)	•			•	•				
c. Deviant	•	•	•	1+			•	•	Max(Varε); where $Y=a\underline{Z}+\varepsilon$	•	•		•					
d. Influential	•			1+		•	•	•	Max(I), the influence of a case on a; where $Y=aX+b\underline{Z}+\varepsilon$	•								•
3. Most-different									*Cases that are dis-similar on background characteristics*									
a. Exploratory	•	•	•	2+			•	•	Min(Var$Y$); Max(Var$\underline{Z}$)	•	•		•	•				
b. Pathway	•	•	•	2+		•	•	•	Min(Var$Y$); Max(Var$X$); Max(Var$\underline{Z}$)	•						•		•
4. Crucial									*A case that is explored through time*									
a. Testing	•	•	•	1+		•	•		Max(Var$X$); Min(Var$\underline{Z}$)	•						•		•
b. Most-likely	•	•	•	1+		•	•	•	X predicts H_1, $\underline{Z}$ predicts H_1, Y suggests H_0	•				•				
c. Least-likely	•	•	•	1+		•	•	•	X predicts H_1, $\underline{Z}$ predicts H_0, Y suggests H_1	•	•					•		
d. Pathway	•	•	•	1+		•	•	•	Max(aX); Min(Var$\underline{Z}$) or $\underline{Z}$ biases against H; where $Y=aX+b\underline{Z}+\varepsilon$	•								•
5. Most-similar									*Cases that are similar on background characteristics*									
a. Exploratory	•	•	•	2+			•	•	Max(Var$Y$); Min(Var$\underline{Z}$) or $\underline{\underline{X}} \rightarrow Y$	•			•					
b. Testing	•	•	•	2+		•	•		Max(Var$X$); Min(Var$\underline{Z}$) or $\underline{Z}$ biases against H	•						•		
c. Pathway	•	•	•	2+		•	•	•	*Case A*: Crucial pathway *Case B*: X=0; Min(Var$\underline{Z}$) or $\underline{Z}$ biases against H	•								•

$\underline{D}$: a vector of descriptive (non-causal) features. ***Data***: data availability. ***Ex ante***: case-selection may occur prior to learning about details of the case (other than those identified in this table) perhaps with some form of stratified random sampling. H: causal hypothesis (H_1: $X \rightarrow Y$, H_0: $X \not\rightarrow Y$). ***Ind***: case-independence. M: one or more pathways (variable or vector) from X to Y. **Max**: maximize. **Min**: minimize. N: number of cases. ***Rep***: representativeness of chosen cases vis-à-vis a larger population. ***Scope***: scope-conditions (population). **Var**: variance. X: causal factor of theoretical interest, assumed to be a single factor unless otherwise noted. $\underline{X}$: vector of all suspected causes of Y (including interactions). $\underline{\underline{X}} \not\rightarrow Y$: X is not, or is unlikely to be, a cause of Y. $X \rightarrow Y$: causal effect (effects-of-causes). $\underline{X} \rightarrow Y$: all causes of Y (causes-of-effects). Y: outcome of interest. aX: the causal effect of X on Y in a cross-case model. $\underline{Z}$: vector of background factors that may affect Y. ?: possible selection criterion.

Table 3.3—Growth of Korean Unions:

Year	Industrial unions	Local unions	No. of members	Organizing rate		
				Male	Female	Total
1963	16	2150	224420	20.8	18.5	20.3
1965	16	2634	301522	23.5	19.1	22.4
1970	17	3482	473259	20.1	19.7	20.0
1971	17	3507	497221	20.1	18.4	19.7
1972	17	3391	515,292	20.3	19.7	20.4
1973	17	3268	548054	20.3	20.0	20.4
1974	17	3784	655785	21.3	22.9	22.1
1975	17	4073	750235	21.4	26.6	23.0
1976	17	4371	845630	21.6	26.4	23.3
1977	17	4580	954727	22.6	27.9	24.3
1978	17	4857	1054608	22.7	26.2	24.0
1979	17	4947	1088061	22.7	25.0	23.6
1980	16	2618	948134	18.5	23.3	20.1
1981	16	2141	966738	18.5	21.6	19.6
1982	16	2194	984136	18.1	21.2	19.1
1983	16	2238	1009881	17.8	18.5	18.1
1984	16	2365	1010522	16.5	17.2	16.8
1985	16	2534	1004398	15.9	15.2	15.7
1986	16	2658	1035890	16.2	14.2	15.5
1987 (June)	16	2742	1050201	15.6	12.9	14.7
1987 (Dec)	16	4103	1267457	18.5	15.0	17.3
1988	21	6164	1707456	23.9	18.1	22.0
1989	21	7883	1932415	25.8	18.5	23.3
1990	21	7698	1886884	24.4	16.3	21.5
1991	21	7656	1803408	22.8	14.2	19.7
1992	21	7527	1734598	21.9	12.2	18.4
1993	26	7147	1667373	20.5	11.3	17.2
1994	26	7025	1659011	19.9	10.0	16.3
1995	26	6606	1614800	18.7	9.3	15.3
1996	26	6424	1598558	18.4	8.4	14.7
1997	26			17.5	7.0	13.5

Source: Korea Labour Institute: *KLI Labour Statistics* (Seoul, Korea Labour Institute, annual).

Note: The two periods of 1987 are highlighted because they serve as break-points for South Korean democratic development.

Table 3.5B Taiwan SMEs data:

Year/Size \ Industry	Commerce	Transportation and Communi-cations	Finance, Insurance and Real Estate	Business Services	Public and Personal Services
1994					
All enterprises	571,987	34,070	21,299	36,840	81,574
SMEs	548,150	32,207	17,463	35,357	80,855
SMEs' share (%)	95.83	94.53	81.99	95.97	99.12
1995					
All enterprises	598,171	34,523	22,103	38,472	84,363
SMEs	585,445	33,793	19,844	37,698	83,950
SMEs' share (%)	97.87	97.89	89.78	97.99	99.51
1996					
All enterprises	611,251	34,850	21,323	39,612	84,263
SMEs	598,266	34,174	19,249	38,822	83,785
SMEs' share (%)	97.87	98.06	90.27	98.00	99.43
1997					
All enterprises	629,617	32,973	21,535	42,227	83,617
SMEs	615,506	32,218	19,529	41,309	83,076
SMEs' share (%)	97.76	97.71	90.68	97.83	99.35
1998					
All enterprises	646,842	32,773	22,099	45,105	86,057
SMEs	632,444	31,935	20,031	44,108	85,425
SMEs' share (%)	97.77	97.44	90.64	97.79	99.27
1999					
All enterprises	656,882	33,232	21,239	47,701	88,975
SMEs	642,196	32,415	19,362	46,640	88,318
SMEs' share (%)	97.76	97.54	91.16	97.78	99.26
2000					
All enterprises	658,501	32,129	20,647	52,266	91,606
SMEs	646,312	31,441	19,163	51,279	91,005
SMEs' share (%)	98.15	97.86	92.81	98.11	99.34
2001					
All enterprises	662,936	32,195	20,301	55,764	94,781
SMEs	651,841	31,530	18,967	54,783	94,201
SMEs' share (%)	98.33	97.93	93.43	98.24	99.39
2002					
All enterprises	687,372	31,960	24,957	58,804	98,004
SMEs	674,364	31,104	21,585	57,705	97,294
SMEs' share (%)	98.11	97.32	86.49	98.13	99.28

Note: Definition of SMEs changed in 1995 and 2000, please refer to Appendix Table B for the evolution of SME definition.

Source: Calculated based on value added tax registration data from Ministry of Finance Taxation Data Center.

Table 3.6 Taiwan SMEs' shares of export values:

Unit: 100 millions of US $

Year	All Industries	SMEs	The Share of SMEs(%)
1982 Total	222.04	154.71	69.68
Manufacturing firm	144.33	106.13	73.53
Trading firm	77.71	48.58	62.51
1983 Total	251.22	159.27	63.39
Manufacturing firm	163.29	109.26	66.90
Trading firm	87.93	50.01	56.87
1984 Total	304.56	180.45	59.24
Manufacturing firm	197.96	123.79	62.53
Trading firm	106.60	56.66	53.15
1985 Total	307.17	188.00	61.20
Manufacturing firm	199.66	128.97	64.59
Trading firm	107.51	59.03	54.91
1986 Total	397.89	264.09	66.37
Manufacturing firm	258.63	181.17	70.05
Trading firm	139.26	82.92	59.54
1987 Total	535.34	358.99	67.06
Manufacturing firm	347.97	246.27	70.77
Trading firm	187.37	112.72	60.16
1988 Total	605.85	363.53	60.00
Manufacturing firm	393.80	249.39	63.33
Trading firm	212.05	114.14	53.83
1989 Total	662.01	407.67	61.58
Manufacturing firm	430.31	278.98	64.83
Trading firm	231.70	127.69	55.11
1990 Total	672.14	385.22	57.31
Manufacturing firm	436.89	264.26	60.49
Trading firm	235.25	120.96	51.42
1991 Total	761.78	433.33	56.88
Manufacturing firm	495.16	297.27	60.04
Trading firm	266.62	136.06	51.03
1992 Total	814.70	455.56	55.92
Manufacturing firm	529.56	312.52	59.02
Trading firm	285.14	143.04	50.16
1993 Total	850.91	465.10	54.77
Manufacturing firm	551.96	319.07	57.81
Trading firm	297.21	146.03	49.13
1994 Total	930.49	489.08	52.56
Manufacturing firm	604.82	335.52	55.47
Trading firm	352.67	153.56	47.15
1995 Total	1,116.88	565.67	50.65
Manufacturing firm	725.97	388.06	53.45
Trading firm	390.91	177.61	45.44
1996 Total	1,159.42	576.80	49.75
Manufacturing firm	753.62	395.69	52.51
Trading firm	405.80	181.11	44.63
1997 Total	1,220.98	595.43	48.77
Manufacturing firm	793.64	408.47	51.47
Trading firm	427.34	186.96	43.75

Source: Table 5-1, White Papers on Taiwan's SMEs.

Table 3.7 Taiwan's Agricultural Data (Source: Taiwan 1996b):

			Industries				Services				
Year	Total	Agriculture	Subtotal	Manufacturing	Construction	Electricity, Gas, and Water	Subtotal	Commerce	Transport, Storage, and Communication	Government	Finance, Insurance, and Business
Net domestic product											
1952	100.0	36.0	18.0	10.8	4.4	0.6	46.0	18.7	3.9	10.9	9.0
1956	100.0	31.9	22.4	14.5	4.9	0.8	46.0	17.0	4.0	12.7	9.8
1960	100.0	32.9	24.9	16.8	4.5	1.3	42.2	14.3	4.1	12.6	9.0
1964	100.0	28.3	28.9	20.9	4.4	1.8	42.8	15.1	4.4	12.4	9.1
1968	100.0	22.1	32.6	24.0	5.1	1.7	45.4	15.1	5.7	13.5	9.4
1972	100.0	14.2	40.3	32.3	4.6	2.1	45.5	14.9	6.1	12.6	9.6
1980	100.0	9.2	44.7	34.0	7.3	2.3	46.1	14.6	6.2	11.6	11.6
1988	100.0	6.1	46.2	38.1	4.9	2.6	47.7	15.7	5.5	11.3	11.2

			Industries				Services			
Year	Total	Agriculture	Subtotal	Manufacturing	Construction	Utilities	Subtotal	Commerce	Transportation	Other
Employment										
1952	100.0	56.1	16.9	12.4	2.4	0.2	27.0	10.6	3.4	13.0
1956	100.0	53.2	18.3	13.2	2.8	0.3	28.5	10.0	4.1	14.4
1960	100.0	50.2	20.5	14.8	3.1	0.3	29.3	10.0	4.4	14.9
1964	100.0	49.5	21.3	15.4	3.3	0.4	29.2	9.6	4.6	15.0
1968	100.0	40.8	25.4	18.6	4.4	0.4	33.8	13.0	4.8	16.0
1972	100.0	33.0	31.8	24.6	5.6	0.4	35.2	14.0	5.2	16.0
1980	100.0	19.5	42.4	32.6	8.5	0.4	38.1	16.0	5.9	16.2
1988	100.0	13.7	42.6	34.5	7.3	0.4	43.7	19.0	5.3	19.4

Table 3.8 China's Growth of registered private businesses, 1978–2005 [numbers of businesses]:

Year	*Getihu*	Growth (%)	PEs	PE Growth (%)	Total number	Total growth (%)
1978	300,000	n.a.	n.a.	n.a.	300,000	n.a.
1979	560,000	86.7	n.a.	n.a.	560,000	86.7
1980	897,000	60.2	n.a.	n.a.	897,000	60.2
1981	1,827,752	103.8	n.a.	n.a.	1,827,752	103.8
1982	2,614,006	43.0	n.a.	n.a.	2,614,006	43.0
1983	5,901,032	125.7	n.a.	n.a.	5,901,032	125.7
1984	9,329,464	58.1	n.a.	n.a.	9,329,464	58.1
1985	11,712,560	25.5	n.a.	n.a.	11,712,560	25.5
1986	12,111,560	3.4	n.a.	n.a.	12,111,560	3.4
1987	13,725,746	13.3	n.a.	n.a.	13,725,746	13.3
1988	14,526,931	5.8	n.a.	n.a.	14,526,931	5.8
1989	12,471,937	–14.1	90,581	n.a.	12,562,518	–13.5
1990	13,281,974	6.5	98,141	8.3	13,380,115	6.5
1991	14,145,000	6.5	107,843	9.9	14,252,843	6.5
1992	15,339,200	8.4	139,633	29.5	15,478,833	8.6
1993	17,670,000	15.2	237,919	70.4	17,907,919	15.7
1994	21,870,000	23.8	432,240	81.7	22,302,240	24.5
1995	25,280,000	15.6	654,531	51.4	25,934,531	16.3
1996	27,040,000	7.0	819,252	25.2	27,859,252	7.4
1997	28,510,000	5.4	960,726	17.3	29,470,726	5.8
1998	31,200,000	9.4	1,200,978	25.0	32,400,978	9.9
1999	31,600,000	1.3	1,508,857	25.6	33,108,857	2.2
2000	26,710,000	–18.3	1,761,769	17.0	28,741,769	–14.0
2001	24,330,000	–5.8	2,028,548	15.0	26,358,548	–0.08
2002	23,770,000	–2.3	2,435,282	20.0	26,205,282	–0.01
2003	23,531,857	–10.0	3,005,524	23.4	26,537,381	1.3
2004	23,505,000	–0.1	3,651,000	21.5	27,156,000	2.3
2005	24,638,934	4.8	4,300,916	17.8	28,940,916	6.6

Source: Zhang, Ming, and Liang, eds., Siying qiye lanpi shu: Zhongguo siying qiye fazhan baogao [Blue book of private enterprises: A report on the development of China's private enterprises], various years.
Note: Getihu refers to individual businesses with less than eight employees, while "PEs" refers to private enterprises (siying qiye) with more than eight employees.

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