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Democracy and Trade Policy: the Role of Interest Groups

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Kyounghee Lee

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Executive Summary

As a democracy develops and matures, the number of interest groups attempting to voice their interests with respect to trade policies tends to increase, and sometimes governments collide with them in the process of enacting restraints. This paper aims to investigate empirically the role of interest groups in Korea's trade policy, utilizing the Grossman and Helpman model (1994). Contrary to prevailing wisdom, the results of our empirical investigation suggest that a greater level of participation by diverse interest groups actually promotes trade liberalization, as different groups offset each other's demands in the act of obtaining government protection. The findings imply that "openness and pluralism" with respect to interest groups is necessary if better strategies for trade liberalization are to be developed.

Keywords: Trade Policy; Interest Groups; Democracy; Political Economy; Korea

JEL Classification: F13, F59

국문요약

민주화가 진전됨에 따라 다양한 이익집단들이 정부의 무역자유화 정책에 대해 목소리를 높이고 있다. 본 연구는 민주화 이후 다양한 이익집단의 증가와 무역 정책에 대한 그들의 참여가 궁극적으로 정부의 무역정책에 어떤 영향을 미치는지를 실증분석한다. Grossman and Helpman (1994) 모델을 이용하여 수행한 분석결과에 따르면, 이익집단의 증가가 보호무역을 초래할 것이라는 일반적인 통념과 달리, 무역정책에 대한 다양한 이익집단의 참여는 오히려 무역자유화에 긍정적인 영향을 미친다. 즉, 소수의 특정 이익집단이 정부로부터 보호를 요구할 때는 이 이익집단의 영향력이 강하게 반영되지만 다수의 이익집단이 동시에 무역정책에 영향을 미칠 때는 이익집단의 요구가 서로 상쇄되는 경향을 보인다. 본 연구결과는 민주주의 체제하에서 이익집단에 대한 '개방주의 (openness)'와 '다원주의(pluralism)' 정책이 궁극적으로 무역자유화 정책에 도움이 된다는 점을 시사한다.

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저서 및 논문

「한국제조업의 무역자유화에 대한 저항 가능성 추정: 정치경제학적 관점」(『무역학회지』, 제35권, 제4호, 2010)

『FTA 효과 극대화를 위한 국내대책 및 구조조정정책 방향』(공저, 2009)

『WTO 체제의 개혁 방향과 한국의 대응』(공저, 2008) 외

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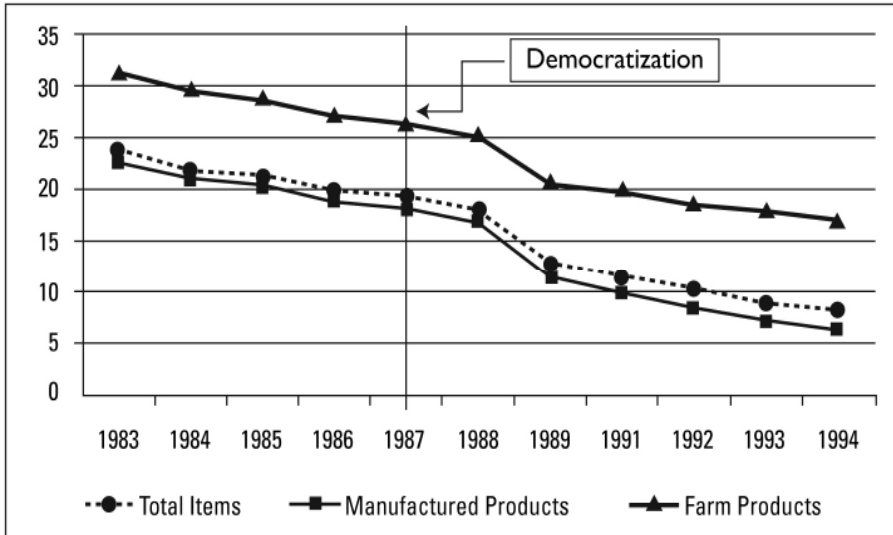
Kyounghee Lee

I. Introduction

1987 was a historic and dramatic year for South Korea, as it underwent transition from an authoritarian to a democratic regime. The change in the political environment gave rise to proliferation of politically active interest groups. Many theorists of endogenous trade policy argue that lobbying by interest groups leads to higher protection (Olson 1965; Stigler 1971; Anderson and Baldwin 1981; Cassing, McKeown, and Ochs 1986; Hansen 1990; and Rodrik 1995). However, it is interesting to note that Korea actually made more progress towards trade liberalization when numbers of interest groups expanded considerably following democratization. Korean tariff rates diminished significantly from an average of 23.7 percent in 1983 to 7.9 percent in 1994 (See Figure 1). This seeming contradiction can actually be explained by two factors. First, Korean interest groups have no significant impact on the government's trade liberalization policy. Second, interest groups affect trade policy in ways that contradict conventional wisdom. A more thorough understanding of this issue is crucial if better strategies for trade liberalization are to be developed.

Figure 1. Korea's Trend of Reductions in Import Tariffs

(Unit: average rates, %)



Source: Park (1997), p. 161.

Despite increasing attention being given to this issue, academic research remains limited regarding the connection between democratization, the changing nature of participation by interest groups, and the outcome of trade policy. The dominant field of research in this area recently is interest group theories. The theories assume that trade policy is determined by interaction between the government and organized lobby groups representing economic interests of their members (Findlay and Wellisz 1982; Hillman 1982; and Grossman and Helpman 1994). While earlier studies of endogenous trade policy simply identify that industries represented by lobbying groups tend to have higher

protection levels, the interest group theories actually go a step further by showing how changes in political participation, especially among interest groups, affect trade policy outcomes. According to the theories, if the entire population is organized and involved in competition, a free trade policy will be the result. However, the mechanism by which an increase in the number of interest groups leads to lower trade barriers remained hidden. In other words, the positive relationship between an increase in organized lobby groups and lower trade barriers is based on the implicit assumption that interest groups lobby against tariff increases in other sectors. Furthermore, this approach remains silent as to the relationship between democratization and the proportion of the population that is organized. This reveals the limitation in specifying the relationship between democratization, interest groups, and trade policy choice. In this regard, Mitra, Thomakos, and Ulubasoglu (2002) compared the proportion of the population organized between pre- and post- democratization periods in Turkey. The work showed that the estimated average proportion of interest groups participating in trade policy was lower during democratic periods. This is clearly an issue that warrants further study and a more systematic analysis.

Given this situation, the purpose of this paper is to systematically analyze the three-way relationship between democratization, the changing nature of interest groups, and outcomes of trade policies. To the best of the author's knowledge, this paper represents the first serious attempt at investigating this issue, utilizing the Grossman and Helpman model (1994). Other existing research using the GH model, aside from the work by Mitra, Thomakos, and Ulugasoglu (2002) men-

tioned above, is limited to observing a developed country for a single year. Case in point, Goldberg and Maggi (1999) and Gawande and Bandyopadhyay (2000) study patterns of protection in the U.S. Tavares (2003) investigates the determinants of protection in the European Union, and McCalman (2004) does the same for Australia. What sets this work apart from existing research is that the present paper analyzes cross-industry protection levels of Korea for four years during the pre-democratization period and for the same amounts of years during the post-democratization period. By comparing the nature of interest-group behavior and the trade policy outcomes in the periods before and after democratization, meaningful conclusions can be drawn concerning the role of interest groups with respect to trade policy. Along with such analysis, this paper also seeks to identify the mechanism by which greater participation of interest groups actually leads to lower trade barriers.

Utilization of Korean data gives the present paper significant advantages over the existing research. First, most studies based on the GH model mainly focus on the U.S. However, the GH "Protection for Sale" model makes the assumption of a "small, open economy," which is certainly more suited to Korea than the U.S. Second, Korean data will allow us to examine the applicability of this model to developing countries in East Asia. As most empirical studies on interest groups have focused on developed countries, little research has been conducted on developing countries. In particular, interest groups in the East Asian countries were simply assumed to have little effect on the government's trade policy since those countries have comparatively strong

governments. The study carried out with Korean data, however, could provide concrete evidence on the role of interest groups in trade policy in a developing country in East Asia. Last but not least, the Korean case allows us to analyze how the influence of interest groups varies as a country's political regime transforms from an authoritarian to a democratic one. It is only possible because Korea is one of the few countries that experienced both dictatorial and democratic regimes within the span of a single generation.

As a result of the analysis, several important "discoveries" have been made. First, and in contrast to the Turkish example of Mitra, Thomakos, and Ulubasoglu (2002), the participation of interest groups in Korea's trade policy actually increased following democratization. This was mainly due to institutional change and proliferation of new organizations in civil society. Second, the coalition patterns in relation to interest groups shifted from class-based coalitions which existed during the authoritarian government, to mixtures of industrial and class coalitions that emerged during the democratic government due to weakened corporatist controls and perhaps also increases in sector specificity. These results indicate that the structure of competition among interest groups became more diversified and complex. Finally, higher participation of interest groups and an increase in the structural complexity of competition resulted in the decrease in the influence of vested interests and that of interest groups as a whole, due to the fact that groups in their respective sectors tended to offset the demands of groups in other sectors. These outcomes combine to show that the democratization of an economy tends to create a more open economy

through an intervening variable - interest groups. This gives rise to a scenario that contradicts conventional ideas on this issue but supports the prediction of the GH theory. Based on the results, this paper proposes a policy mindful of the fact that “openness and pluralism” of interest groups is an essential prerequisite for a country to become capable of effectively implementing a policy of trade liberalization.

This paper is organized as follows. Chapter II formulates three major hypotheses. Chapter III describes the econometric models, strategies, and data. Chapter IV reports the results and finally, Chapter V brings the paper to conclusion.

II. Democracy, Interest Groups, and Trade Policy

For the purpose of examining the role of interest groups in trade policy following democratization, this paper constructs three major hypotheses. The first hypothesis is to test whether democratization changes the level of participation by interest groups in trade policies. The second hypothesis is to test whether democratization brings about changes in coalition patterns and thereby, changes in the structure of competition. The last hypothesis is to test how the influence of interest groups on trade policies varies with the changing nature of interest groups following democratization.

1. Level of Participation by Interest Groups

Political interaction between the government and interest groups, which can determine trade policy outcomes, is generally affected by the nature of the political regime (democracy/ authoritarianism). Under a democratic regime, interest groups may have greater political space, more formalized channels of interest articulation, and deeper penetration, and pressure from these groups on the government tends to be unavoidable. In contrast, an authoritarian government can prevail over society and thereby insulate its decision-making processes from interest-group pressure (Moon 1994; Bienen and Herbst 1996; and Milner and Kubota 2005).

In the case of Korea, democratization has radically changed the rules of engagement between society and government. As democracy was obtained in Korea, authoritarian politics and corporatist culture that characterized dictatorial government were mitigated; and the number of politically active interest groups has multiplied quickly. Freedom of association and expression has drastically expanded the political space available for these groups (Moon 1994; Hwang 1998; Jeong 2002; Kim 1998; Yoon and Kim 1989; and Lee 2002).

However, there is few econometric evidence of whether democratization increases the proportion of people organized. Mitra, Thomakos, and Ulubasoglu (2002), the only paper which econometrically compares the proportion of the organized population in periods before and after democratization in Turkey using the GH model (1994), shows that the average estimated proportion was lower in the democratic period. In the study, the proportion was shown as having decreased from 65 percent during the authoritarian period to 59 percent in the democratic period. This result was obviously not in line with general expectations, and necessitated further investigation. In consequence, the present paper examines whether the proportion of organized interest groups is higher in a democratic regime.

Hypothesis 1: The proportion of organized interests influencing trade policy will be higher in a democratic regime than in an authoritarian one.

2. Coalition Patterns and Competing Structure of Interest Groups

There are broadly two competing theories on the nature of organized interests. The standard pluralist approach argues there is a multiplicity of cross-cutting groups, such that conflicts within business (or other groups) are almost as great as the conflicts between business and labor. In contrast, other theorists argue there is a class-based unity, with business groups usually being unified in support of one position, and labor and its allies similarly unified in support of an opposing position. (Neustadt, Scott, and Clawson 1991).

Many economists and political scientists also studied the question of whether trade-related political behavior takes place mostly along sectoral (industrial) lines or class (factor-ownership) lines (Gawande and Krishna 2003, pp. 233-234). Two representative models of international trade – the Heckscher-Ohlin model and the Ricardo-Viner model – provide divergent predictions. The former, where full mobility of factors across sectors is assumed, predicts that the country's relatively abundant factor of production acquires gains from trade liberalization and that the less abundant factor loses, thus implying that there will be a split along class lines on the issue of trade liberalization (Rogowski 1989). The latter, where factors of production are assumed to be sector-specific, predicts that economic interests will be organized along sectoral lines instead (Hiscox 2001). The empirical analyses to make a distinction between these competing hypotheses were conducted by Magee (1980), Irwin (1996), and Baldwin and Magee (2000). However, the existing literature has not shown consistent empirical results between

class cleavage and industrial coalition. Magee (1980) and Irwin (1996) find substantial support for the sectoral coalition, but Baldwin and Magee (2000) finds evidence that supports class cleavage. Thus it is difficult to infer the validity of particular theories from the estimates. Furthermore, it is very difficult to find those rare studies which relate coalition patterns to political regime types.

When considering the Korean experience, however, it is expected that coalition patterns would shift from class coalitions under an authoritarian regime to mixed coalitions involving both class and industry under a democratic regime. In Korea, on account of democratization, the corporatist culture under the authoritarian government which created an environment conducive for class coalition has been mitigated, and various types of interest groups have been created (Moon 1994). In addition, Korea's factor specificity has increased since democratization, signaling more sectoral coalitions.¹ Considering these trends, this paper will test whether various industrial coalitions, as well as class coalitions prominent under an authoritarian regime, emerge under a democratic regime.

Hypothesis 2: Coalition patterns of interest groups will be more diversified in a democratic regime than in an authoritarian one.

¹ The relative share of labor income in total income (Employee's Income/Factor Cost National Income) in Korea, which reflects factor specificity, increased from 52.5 in 1982 to 62.3 in 1997 (J. Kim 2005).

3. Influence of Interest Groups

Interest group theorists argue that interest groups in import-competing sectors lobby the government for barriers against imports, with those sectors receiving trade protection as a result (Olson 1965; Findlay and Wellisz 1982; Magge, Brock, and Young 1989; Hillman 1989; and Grossman and Helpman 1994). In addition, many empirical studies provide evidence that the evolution of tariffs corresponds to political influence exercised by organized interest groups (Cheh 1974; Bale 1977; Baldwin 1985; Lavergne 1983; Caves 1976; and Helleiner 1977).

Then, if the number of interest groups increases, in what way does a nation's trade policy evolve? The GH model (1994) shows that if all industries are organized and each citizen is represented by a certain group, then the joint surplus of all lobby groups can be equated with the well-being of society at large, and free trade would be the equilibrium outcome. That is, when one lobby group faces no opposition from competing interest groups, it garners the entire surplus from its political relationship with the government; however, when all voters are members of a lobby, rivalry among competing interests becomes intense, and the government plays rivals off against each other to capture the entire surplus. Thus, the emphasis of the GH model is on distributional considerations, because trade policy functions as a medium through which income is transferred to preferred groups in society (Helpman 1997).

Generally, an authoritarian government in a developing country

tends to have a cozy relationship with a special interest group, particularly conglomerates, with the aim of maintaining its political power or economic development of the nation (Milner and Kubota 2005). When based on the inference from the GH model, however, it is expected that democratization, because of greater participation of diverse interest groups as discussed in hypotheses 1 and 2, will ultimately lead to a decrease in the influence of vested interests and interest groups as a whole on trade policy, as they offset each other's demands. However, little has been done to examine the changes in influence of vested interest groups and interest groups as a whole on trade policies following democratization. Therefore, this paper will examine how the influences of vested interests and interest groups as a whole change with regard to trade policies when factoring in democratization.

Hypothesis 3: The influence of vested interests and interest groups as a whole will be mitigated in a democratic regime.

III. Models and Data

1. Theoretical Model: Grossman-Helpman Model (1994)

As a theoretical framework, this paper adopts the GH model (1994). The GH model assumes a small and competitive economy that faces world prices set exogenously. Hence, free trade represents the optimal policy for this economy.

Grossman and Helpman (1994) posit a multi-sector, specific-factor economy in which individuals have quasi-linear preferences. Some of these sectors are politically organized, while others are not. The politically organized sectors influence politicians by means such as campaign contributions. Politicians, in turn, maximize a linear objective function with two distinct components: political contributions by lobby groups and aggregate social welfare. Under these assumptions, the GH framework makes the following prediction regarding the cross-industry pattern of protection.

$$\frac{t_i}{1+t_i} = \frac{I_i - \alpha_L}{\frac{\beta}{1-\beta} + \alpha_L} \cdot \frac{z_i}{e_i} \dots\dots\dots (1)$$

where t_i is the *ad valorem* tariff on good i in equilibrium, I_i is an indicator variable that equals one if sector I is organized into a lobby and zero otherwise, z_i is the inverse import penetration (domestic output

$(X_i) / \text{imports } (M_i))$, and e_i is the import-demand elasticity of good i . The parameter α_L is the percentage of the population organized into lobbies ($\alpha_L \in [0, 1]$). β is the constant weight that the government places on aggregate welfare relative to aggregate political contributions in its linear objective function ($\beta \in [0, 1]$).

As shown in equation (1), the GH model has strong implications for the cross-sectional structure of trade protection. First, trade protection should be stronger in industries represented by a lobby groups and industries with lower import elasticity; secondly, within the subset of organized industries, protection should be stronger in industries with lower import penetration; whereas in the group of sectors not organized, protection should increase with import penetration. The idea concomitant with these results is that, if domestic output is greater, specific-factor owners have more to gain from an increase in domestic prices, while (for a given import-demand elasticity) the economy has less to lose from protection if the volume of imports is lower. Also, sectors characterized by higher import elasticity should receive less protection. The idea behind this is that when import elasticity is higher, the deadweight loss from protection is greater, and therefore the government would be less willing to grant protection.

Finally, there are two special cases in which the model predicts free trade. First, if the government is not concerned with contributions ($\beta = 1$), it would have no incentive to impose trade barriers. Second, if all industries are organized ($I_i = 1$ for all i) and each citizen is represented by a lobby group ($\alpha_L = 1$), then the joint surplus of all lobbies coincides with the well-being of society at large, and free trade would be the equi-

librium outcome (Goldberg and Maggi 1999, p. 1139)

2. Empirical Model and Estimation Techniques

This paper adopts the empirical specification by Goldberg and Maggi (1999)² as a basic econometric model and also utilizes an additional extended model. Equation (2) forms the basis of the model specification, and Equation (3) is the extended model specification.

$$\frac{t_i}{1+t_i} e_i = \frac{I_i - \alpha_L}{\frac{\beta}{1-\beta} + \alpha_L} \frac{X_i}{M_i} + \varepsilon_i$$

$$\frac{t_i}{1+t_i} e_i = \gamma \frac{X_i}{M_i} + \delta I_i \frac{X_i}{M_i} + \varepsilon_i \quad \dots\dots\dots (2)$$

$$\frac{t_i}{1+t_i} e_i = \gamma \frac{X_i}{M_i} + \delta I_i \frac{X_i}{M_i} + \lambda L_i \frac{X_i}{M_i} + \varepsilon_i \quad \dots\dots\dots (3)$$

$$\frac{X_i}{M_i} = \xi' Z_i + u_i \quad \dots\dots\dots (4)$$

where $\gamma = [-\alpha_L/(\beta/1-\beta) + \alpha_L]$, and $\delta = [1/(\beta/1-\beta) + \alpha_L]$
 t_i is a trade-weighted ad valorem tariff, e_i is import demand elasticity, X_i/M_i is inverse import penetration (X_i is domestic production and M_i is imports), I_i is a political organization dummy. Z_i consists of sector characteristics that include capital, land, employment level, wage level,

² Goldberg and Maggi (1999) formulated an econometric model to test if the GH model can be applied to the real world, and many empirical studies on the GH model have adopted the G-M empirical model.

investment, inventory, value-added, production cost, and market concentration ratio (See Appendix Table A-1).

Regarding equations (2) and (3), the inclusion of import elasticities brings up two issues for estimation: the endogeneity of the elasticities, and concerns about using a variable measured with error. The approach taken here, following Goldberg and Maggi (1999), is to move e_i to the left-hand side. Since endogenous variables are represented on the left-hand side and exogenous variables on the right-hand side, the endogeneity of e_i is addressed directly. In addition, the inclusion of e_i as a left-hand variable directly addresses measurement error, since the noise associated with using estimates of e_i is incorporated directly into the error of the estimated equation. Consequently, the parameters thus estimated are consistent. On the other hand, both variables of inverse import penetration (X_i/M_i) and political organization dummies (I_i , I_{Li}) may be affected by the level of tariffs, meaning an endogeneity problem might arise. This can be resolved by using Two Stage Least Squares (TSLS) and proxy variables, respectively, for those variables. The inverse import penetration is where the endogeneity problem is more severe, and it may be heavily affected by the tariff on the left-hand side of the equation. Also, what the GH model is concerned with are trade flows that stem from comparative advantage. Therefore, in order to avoid the endogeneity problem of the inverse import penetration variable, X_i/M_i , equations (2) and (3) are estimated, respectively, along with equation (4) by TSLS. In theory, the set of instruments for inverse import penetration are divided into two groups: those that affect the probability of being politically organized (i.e. concentration

ratio, number of firms, employment size, wage bill, and value-added in each sector), and those that account for a comparative advantage (i.e. amount of physical capital, land area used in each sector, labor used in each sector, investment, and inventories). These variables are included in the reduced-form specification (Equation (4)), as import penetration depends on levels of protection, which according to the theory is affected by political organization. In addition, in order to deal with the endogeneity problem of the political organization dummy, a variety of proxy variables for class and industrial coalitions are constructed. Specifically, three versions of class organization dummies (large businesses, SMEs, and labor) and seven versions of industrial organization dummies (small number of firms, large employment, large production, low per capita wage, large amount of value added, high capital intensity, and high labor intensity) are constructed. Usage of the proxy variables is probably less prone to endogeneity.³ In each case, if the variable in question for a given industry is higher than the threshold, the value of I takes 1, otherwise zero.⁴

In case of labor organizations, the empirical specification can be different depending on what category labor is classified. On the one hand, unionized labor can be regarded as owners of sector-specific human

³ In the GH model, the organization dummies are exogenous. However, some of the organization dummies used in this paper could be endogenous. Nonetheless, many empirical papers including Goldberg and Maggi (1999) found that there is no significant difference between a version of the model that treats political organization dummies as endogenous and a version in which these dummies are assumed to be exogenous (Refer to Goldberg and Maggi 1999, p. 1143).

⁴ Please refer to Chapter 3.3 regarding construction of political organization dummies.

capital (Mitra, Thomkos, and Ulubasoglu 2002). In this case, labor organization can be tested with the dummy variable I_i of the basic model (2) as in the case of other capital organizations. On the other hand, all labor can be transferable among industries and they are different from sector-specific factors (capital). However, laborers can also become politically organized for their own interests, separately from organization of sector-specific capital factors, since labor interests may differ from capital interests against import liberalization even within the same industry (Song 2008). In this case, labor organization can be tested with the variable I_{Li} of the extended model (3).⁵ In this context, the present paper uses both the basic model (Equation (2)) and an extended model (Equation (3)) to test if labor organizations influenced Korean trade policies. The extended model is set for empirical tests, but is not suited theoretically for the GH model.

Among the variables in the basic and extended models, the variations of tariffs and elasticity over time are low. Therefore, the fixed effects panel estimation is not adopted, and instead a pooled OLS is used for the analysis. Finally, the estimation results are examined to check if they are consistent with the predictions of the GH model. The consistency check involves examining the signs of γ and δ along with $\gamma+\delta$ to see whether they are in line with the predictions of the model. Consistency requires $\gamma<0$, $\delta>0$, and $\gamma+\delta>0$. Having these two parameters, γ and δ , it is possible to calculate implied values of β and α_L .

⁵ Helpman (1997) shows how political-support forces can affect tariffs within the kind of multi-sectoral, specific-factors framework presented in this paper. He shows that $\frac{Z_i}{e_i}$ is still the main determinant of a sector's tariff under those forces.

3. Time-Periods and Data

The time-periods analyzed are the first halves of the 1980s and 1990s, respectively. The time period was not selected randomly but for specific reasons. Korea moved from protectionism in the 1970s to trade liberalization in the 1980s. Korea's open market policy – "the Preliminary Announcement Import Liberalization Policy" – was introduced in the early 1980s and ended in 1994. This policy was based on unilateral liberalization rather than foreign pressure. Since the GH model is unilateral, the time period selected here (until 1994) is appropriate for the empirical analysis. With the effectuation of the Uruguay Round agreement in 1995, the Korean government gradually lost its autonomy in formulating and implementing trade policies, which tended to be determined thereafter in accordance with agreements made with members of the WTO.

Various political-organization dummies are constructed as follows. Class organization dummies, meaning the categories of the industries that are in the interests of conglomerates, SMEs, and labor, respectively, are predetermined. Industries with high market concentration ratios are selected as an industry grouping that large corporations have interests in.⁶ This paper calculates four-firm concentration ratio (CR 4) by three-digit KSIC codes, and selects the industries with CR 4 higher

⁶ Lim (1994) showed that the industries in which large Korean corporations are involved have shown higher market concentration. In particular, industries where top five conglomerates were involved showed severe market concentration, indicating an oligopolistic market structure. The fact that conglomerates are involved in an industry acted as an entry barrier to business (Lim 1994, pp. 175-177)

than 50 for the industry group that large corporations have interests in.

The definition of SMEs in Korea's "Special Act of Small and Medium Enterprises" states that SMEs are those enterprises where there are fewer than 300 employees or with capital less than 1 billion Korean Won. Based on this definition, the industries in which the sales of SMEs accounted for more than 70 percent of total aggregate sales are selected for the industry group that SMEs have interests in.

With respect to labor organization, it is almost impossible to acquire data on industrial unions in the Korean labor movement, because industrial unions have not been active in Korean labor. Instead, company unions had been dominant during the periods analyzed in this paper. However, according to the bargaining power theory, the ratio of employee's wage to total value-added increases in the industries where labor unions are organized. The ratio of employee's wage to total value-added in an industry increases mainly due to the increase in labor's bargaining power to capital, which could be brought on by the organization of labor unions. This theory is firmly grounded in and supported by empirical studies (Levinson 1954; and Glyn and Sutcliffe 1972). Based on the theory, the industries with a high ratio of employee wage to total value-added are selected as the industries that are in labor's interests— in other words, if the share of employee's wage vis-à-vis the total value-added of the industry is greater than 50 percent,⁷ the industry is regarded as falling in with labor interests.

As for proxies for the industrial organization dummy, the variables

⁷ The average is around 32 percent in the industries analyzed in this study.

having an impact on possible political organization are chosen, as they are often used in existing studies of endogenous tariff theories.⁸ Among the industrial dummy variables chosen in this paper are those of industries with small number of firms, large employment, large production, large amount of value-added, low per capita wage, high import penetration, high capital intensity, and high labor intensity, considering availability of data. Among the industries that share those characteristics, respectively, were selected the industries that belong to the top 20 percent.

Data sources are as follows. The ad valorem tariffs are taken from UN Comtrade statistics. Import weighted tariffs are calculated with import data by Harmonized System (HS) four-digit codes from UN Comtrade. A matching tabulation is performed to connect the data of imports by HS four-digit codes with the data of other variables by KSIC three-digit codes, based on the concordance table from ISTAN (<http://www.istans.or.kr>). The import demand elasticities are taken from S. Kim (2005). This paper draws import demand elasticities from analyses of VAR model with three-digit Standard International Trade Classification (SITC) codes. Since these are the only estimates of elasticity available, they are used for both pre- and post- democratization periods. In addition, a matching tabulation is conducted to link the data of import demand elasticities by SITC three-digits with KSIC three-

⁸ Hathaway(1998) summarizes the political consideration factors that affect trade policy determination, which are drawn from numerous theoretical works, especially Conybeare 1991; Rogowski 1987a; Rogowski 1987b; Lavergne 1983; Anderson and Baldwin 1981; Ray 1981; Baldwin, Mutti, and Richardson 1980; and Baldwin 1979.

digits. The data required for political organization dummies and instruments are taken from a raw data CD (the Report on Mining and Manufacturing Survey) from the Korea National Statistical Office.

Table 1. Summary Statistics⁹

Variable	1980s (1982~85)			1990s (1991~94)		
	Mean	SD	Obs.	Mean	SD	Obs.
Tariff	0.29	0.14	258	0.10	0.06	278
Inverse import penetration ratio	28.36	90.64	258	12.33	23.24	278
Import elasticity	0.97	0.73	258	0.98	0.69	278
Class organization dummy						
Big business	0.26	0.44	258	0.20	0.40	278
SMEs	0.26	0.44	258	0.39	0.48	278
Labor	0.05	0.21	258	0.03	0.17	278

⁹ The statistics of industrial organization dummies are not reported. Those dummies have the same mean values (0.2) and the same standard deviation values (0.4), because they were selected from the top 20 percent among the industries that share the same characteristics of industrial organization.

IV. Empirical Results

1. Consistency Check

The consistency check involves examining the signs of γ and δ along with $\gamma+\delta$ to see whether they are in line with the predictions of the model. Consistency requires that γ be less than 0 ($\gamma<0$), δ be greater than 0 ($\delta>0$) and $\gamma+\delta$ also be greater than 0 ($\gamma+\delta>0$). As shown in Tables 2 to 5, some of the results are consistent with the predictions of the GH model: the signs ($\gamma<0$, $\delta>0$, $\gamma+\delta>0$) and t-statistics of the coefficients γ and δ are consistent with the predictions of the model (See shaded areas on Tables 2 to 5). However, the support for sign of $\gamma+\delta$ is weak: it has a positive value, but it is not statistically significant.¹⁰ These findings mean that in those cases, the relationship between protection and import penetration depends on whether or not the sector is politically organized; the positive sign and the statistical significance of the parameter δ indicate that there is a distinct pattern of protection in organized versus non-organized sectors. However, the support for the prediction that the relationship between inverse import penetration and protection is positive within the set of organized sectors is weak. That is, Korean interest groups did affect Korea's trade policy, but the effects were minimal. On the other hand, the cases where predictions of the

¹⁰ Some of the Wald Test results do not reject the null hypothesis, $\gamma+\delta=0$, even though the sign of $\gamma+\delta$ is positive (See Appendix Table A-2).

GH model are not consistent – for instance, where the signs ($\gamma < 0$, $\delta > 0$, $\gamma + \delta > 0$) are different, or the t-statistics of the coefficients γ or δ are not significant – can be interpreted to mean that those interest groups did not influence Korea's protection structure. In these cases, the proportion of interest groups represented by lobbies (α_L) or the government's welfare considerations (β) tends to come close to 1.

Table 2. TSLS Estimation Results of Class Coalitions for Pre-democratization Period (Pooled data: 1982~85)

Variable	Basic Model (3)				Extended Model (4)		
	I _i (Large)	I _i (SMEs)	I _i (Large-SMEs)	I _i (Labor)	I _i (Large)	I _i (SMEs)	I _i (Large-SMEs)
C	-0.2084*** (0.0145)	-0.1774*** (0.0153)	-0.1900*** (0.0163)	-0.1927*** (0.0142)	-0.1876*** (0.0186)	-0.1774*** (0.0156)	-0.1899*** (0.0167)
X _i /M _i	-0.0002*** (0.0001)	-0.0002 (0.0001)	-0.0002 (0.0001)	-0.0002* (0.0001)	-0.0022* (0.0006)	0.0002 (0.0001)	-0.0002 (0.0001)
I _i * (X _i /M _i)	0.0066** (0.0025)	-0.0043** (0.0017)	-0.0006 (0.0014)	-0.0032 (0.0123)	0.0082*** (0.0025)	-0.0042** (0.0017)	-0.0005 (0.0014)
I _{Li} * (X _i /M _i)					0.0026 (0.1578)	-0.0014 (0.0123)	-0.0032 (0.0123)
Implied α_L	0.0303	-0.0465	-0.3333	-0.0625	-	-	-
Implied β	0.9934	1.0043	1.0006	1.0032	-	-	-
N	258	258	258	258	258	258	258
R ²	0.0859	0.01	0.0073	0.0138	0.1322	0.0131	0.0116
F	4.9031***	4.4186**	1.4172	1.3792	6.4376**	2.8703**	0.9446

Notes: 1) Dependent variable: $t_i^* e_i / (1 + t_i)$

2) Instrument lists for X_i/M_i : capital, land, investment, inventory, value-added, production cost, employment level, wage level, and market concentration.

3) Figures in parentheses are standard errors.

4) * significant at 10%; ** significant at 5%; *** significant at 1%

5) The values of implied α_L and β are not calculated in the extended model since the model is only for additional empirical tests and is not suited to the GH theory (1994).

2. Hypotheses Test

The estimation results indicate that both α_L and β increased since democratization (See Tables 2 to 5). In the basic class organization model, the value of α_L dramatically increased from 3% up to around 87% and the value of β also increased from 0.9934 to 0.9976 after democratization (See Tables 2 and 3). In addition, in the industrial organization model, the value of α_L increased from 1.7% to 80.9%, and the value of β also increased from 0.986 to 0.997 (See Tables 4 and 5). These results differ from those from Mitra, Thomakos, and Ulubasoglu (2002) in which the value of α_L was lower during the democratic period, but are consistent with our expectations. The result of an increase in α_L supports **Hypothesis 1** — *The proportion of organized interests influencing trade policy will be higher in a democratic regime than in an authoritarian one.*

The estimation results also show that before democratization, only groups of large corporations and a small number of firms influenced Korean trade policies (See Tables 2 and 4). It should be noted that industries with a small number of firms are, in general, industries where a few conglomerates account for a large share of market sales. In fact, as a result of the correlation analysis, the dummy variable for large corporations (measured by CR 4) showed a high correlation (0.55) with the dummy variable of a small number of firms. The reason that large corporations had a substantial impact on Korean trade policies before democratization could be attributed to the policy direction of the government at the time. The policy was focused on heavy-chemical industries

Table 3. TSLS Estimation Results of Class Coalitions for Post-democratization Period (Pooled data: 1991~94)

Variable	Basic Model (3)				Extended Model (4)		
	I _i (Large)	I _i (SMEs)	I _i (Large-SMEs)	I _i (Labor)	I _i (Large)	I _i (SMEs)	I _i (Large-SMEs)
C	-0.0789*** (0.0086)	-0.0739*** (0.0086)	-0.0763*** (0.0086)	-0.0757*** (0.0085)	-0.0788*** (0.0087)	-0.0745*** (0.0086)	-0.0766*** (0.0086)
X _i /M _i	-0.0011*** (0.0003)	-0.0021*** (0.0006)	-0.0025*** (0.0007)	-0.0010*** (0.0003)	-0.0011*** (0.0003)	-0.0021*** (0.0006)	-0.0025*** (0.0007)
I _i * (X _i /M _i)	0.0037** (0.0019)	0.0024** (0.0012)	0.0030*** (0.0011)	0.0045 (0.0078)	0.0037*** (0.0019)	0.0025** (0.0012)	0.0030*** (0.0011)
I _{Li} * (X _i /M _i)					-0.0005 (0.0078)	0.0065 (0.0079)	0.0028 (0.0079)
Implied α_L	0.2973	0.875	0.833	0.2222	-	-	-
Implied β	0.9963	0.9976	0.997	0.9955	-	-	-
N	278	278	278	278	278	278	278
R ²	0.031	0.0082	0.0009	0.0344	0.0306	0.0075	0.0033
F	6.6901***	6.6381***	7.8822***	4.8229***	4.4332***	4.6894***	5.2977***

Notes: 1) Dependent variable: $t_i^*e_i/(1+t_i)$

2) Instrument lists for X_i/M_i : capital, land, investment, inventory, value-added, production cost, employment level, wage level, and market concentration.

3) Figures in parentheses are standard errors.

4) * significant at 10%; ** significant at 5%; *** significant at 1%

5) The values of implied α_L and β are not calculated in the extended model since the model is only for additional empirical tests and is not suited to the GH theory (1994).

in which mostly large corporations were involved. Following democratization, the organizations of SMEs, as well as large corporations, began affecting Korea's trade policy. In addition, various types of industrial coalitions have influenced the structure of Korean trade protection since democratization. They include industries with a small number of firms, high capital-intensive industries, high labor-intensive industries,

and large-scale value-added industries. In sum, coalition patterns influencing trade policy diversified after democratization, which thereby proves **Hypothesis 2** — *Coalition patterns of interest groups will be more diversified in a democratic regime than in an authoritarian one.*

Lastly, in the analysis of the period prior to democratization, the coefficient value of $I_i \frac{X_i}{M_i}$ in the case of the big business dummy (the only organization dummy variable revealed to have statistical significance in the pre-democratization period) was 0.0066. It means that a one-standard-deviation increase in $I_i \frac{X_i}{M_i}$ will change the dependent variable $[t_i * e_i / (1 + t_i)]$ by approximately 0.0066 standard deviations in the direction of coefficient signs. On the other hand, during the post-democratization period, both *chaebols* and SMEs impacted Korea's trade policy unlike during the pre-democratization period. In this period, the coefficient value in the case of the big business dummy became smaller (0.0037), and the coefficient value in the case of SMEs was 0.0024. Also, the coefficient value in the case of combined group (*chaebols* and SMEs) dummy was 0.0030 (Tables 2 and 3). Considering that the same values of elasticities were used for both pre- and post-democratization periods, the decrease in the coefficient value of big business dummy implies that the influence of *chaebols* on tariff protection decreased after democratization. These results indicate that as additional groups influenced trade policy, the influence of interest groups tended to become divided among several interest groups. The cases of industrial coalitions also show similar patterns (See Tables 4 and 5). These findings support **Hypothesis 3** — *the influence of vested interests and interest groups as a whole will be mitigated in a democratic regime.*

Table 4. TSLS Estimation Results of Industrial Coalitions for Pre-democratization Period from the Basic Model (Pooled data: 1982~85)

	①I _i (No.of firms)	②I _i (Large Employment)	③I _i (Large Production)	④I _i (Low per-capita wage)	⑤I _i (Large amount of value-added)	⑥I _i (High capital intensity)	⑦I _i (High labor intensity)
C	-0.2060*** (0.0129)	-0.1784*** (0.0206)	-0.1851*** (0.0214)	-0.193*** (0.0140)	-0.1860*** (0.0226)	-0.1882*** (0.0146)	-0.1935*** (0.0139)
X _i /M _i	-0.0002* (0.0001)	-0.0016 (0.0014)	-0.0011 (0.0017)	-0.0003 (0.0003)	-0.001 (0.0018)	-0.0002 (0.0002)	-0.0003 (0.0002)
I _i *(X _i /M _i)	0.0142*** (0.0034)	0.0014 (0.0014)	0.0009 (0.0017)	0.0002 (0.0006)	0.0008 (0.0018)	-0.0014 (0.0012)	0.0001 (0.0004)
Implied α_L	0.017	1.1335	1.2410	1.6351	1.2807	-0.1445	2.1189
Implied β	0.986	0.9986	0.9991	0.9998	0.9992	1.0014	0.9999
N	258	258	258	258	258	258	258
R ²	0.1869	0.0294	0.0197	0.0111	0.0302	0.0159	0.0121
F	10.3279***	1.8464	1.4854	1.4096	1.4534	2.0485	1.4001

Notes: 1) Dependent variable: $t_i^*e_i/(1+t_i)$

2) Instrument lists for X_i/M_i: capital, land, investment, inventory, value-added, production cost, employment level, wage level, and market concentration.

3) Figures in parentheses are standard errors.

4) * significant at 10%; ** significant at 5%; *** significant at 1%

After considering these results, we reach the logical conclusion that after democratization, additional participation of diverse interest groups in trade policy will lead to lower trade protection, by decreasing the influence of vested interests and interest groups as a whole – a very interesting piece of empirical evidence. However, it should be noted that the value of β – the Korean government's consideration of social welfare relative to political factors – turned out to be very large, ranging from 0.9934 to 0.9976. That is, even though Korea's trade liberalization has been brought about by increases in both α_L and β , the

influence of β has still been dominant. The government tends to place less importance on political considerations. Nevertheless, the Korean case presents concrete evidence that after democratization, the expanded participation by diverse interest groups tends to lead to a more liberal trade policy, i.e., lower trade barriers.

Table 5. TSLS Estimation Results of Industrial Coalitions for Post-democratization Period from the Basic Model (Pooled data: 1991~94)

	①I _i (No.of firms)	②I _i (Large Employment)	③I _i (Large Production)	④I _i (Low per-capita wage)	⑤I _i (Large amount of value-added)	⑥I _i (High capital intensity)	⑦I _i (High labor intensity)
C	-0.0773*** (0.0086)	-0.0549*** (0.0101)	-0.0766*** (0.0088)	-0.0752*** (0.0084)	-0.0692*** (0.0087)	-0.0816*** (0.0093)	-0.0679*** (0.0089)
X _i /M _i	-0.0011*** (0.0003)	-0.0042*** (0.0010)	-0.0010*** (0.0003)	-0.0009** (0.0004)	-0.0024*** (0.0006)	-0.0010*** (0.0003)	-0.0026*** (0.0006)
I _i *(X _i /M _i)	0.0083** (0.0043)	0.0038*** (0.0011)	0.0011 (0.0022)	-0.0002 (0.0012)	0.0030*** (0.0011)	0.0088* (0.0053)	0.0036*** (0.0011)
Implied α_L	0.1298	1.0997	0.9201	-4.5	0.8095	0.1136	0.7222
Implied β	0.9917	0.9962	0.9989	1.0002	0.997	0.9913	0.9964
N	278	278	278	278	278	278	278
R ²	0.0096	0.1132	0.0313	0.0316	0.0226	0.0186	0.0145
F	6.4063***	10.7205***	4.7624***	4.6483**	8.6131***	5.9501***	9.5268***

Notes: 1) Dependent variable: $t_i^*e_i/(1+t_i)$

2) Instrument lists for X_i/M_i: capital, land, investment, inventory, value-added, production cost, employment level, wage level, and market concentration.

3) Figures in parentheses are standard errors.

4) * significant at 10%; ** significant at 5%; *** significant at 1%

3. Sensitivity Analysis

The robustness of estimation results will be evaluated in this section. The degree of sensitivity regarding the estimation results with respect

to the choice of instruments used is examined, based on the method of McCalman (2004). One fact that stands out from the results is the prominent role that instrumental variables have played in their estimation, and determining how sensitive the results are to the choice of instruments used is something that merits real attention. The variables listed in the left-hand column in Tables A-3 to A-11 are instruments that have been omitted from the estimated model. For all cases, the estimated results appear to be remarkably robust, with all of the model's predictions satisfied and the implied values of α_L and β within plausible ranges. Consequently, the estimation results appear to be robust as relating to choices of instruments for all those cases mentioned above.

V. Conclusions

This paper attempts to solve the puzzle of the relationship between the increase in the number of interest groups and trade liberalization following democratization of Korea through econometric analysis. Generally, when the number of interest groups increases, it is expected that they will impede trade liberalization. Korea, however, made greater progress towards trade liberalization even after various interest groups significantly increased following democratization. The phenomenon can be explained by the changing nature or behavior of the government and interest groups, the two main constituents in the making of trade policy. Between the government and interest groups, this paper focuses more on the role of interest groups, which has not been given careful consideration as to its relevance in the making of Korea's trade policy.

The estimated results of the Korean case indicate that both the government's relative valuation of social welfare (β) and the fraction of population represented by lobbies (α_L) increased. Both of those parameters play an important role in the GH model, with higher values of either associated with a more liberal trade policy, other things being constant. Hence, it can be inferred that Korea's trade liberalization was positively influenced by the roles of both the government and interest groups. In particular, the findings of this paper provide interesting evidence with regard to the role of interest groups. That is, after demo-

cratization in Korea, the proportion of interest groups influencing trade policy actually increased; patterns of coalition among them diversified; and in turn, the influence of vested interests and interest groups as a whole decreased, as higher competition among interest groups serves to offset each other's demands in the act of attaining government protection.

However, it should be noted that the value of β was very large in both periods. That is, Korea's trade policy may have been affected mainly by the government's policy goal towards market opening; with the influence of interest groups being comparatively small. Nonetheless, the findings of this paper give us important evidence of the role of interest groups – expanded participation of diverse interest groups actually promotes trade liberalization. The present paper may thus provide some guidelines as to the policy direction regarding interest groups when the government introduces new policies for trade liberalization. This paper suggests that the government, as a maker of policy, should provide various interest groups with a level playing field to express their interests within a democratic mechanism ("openness and pluralism"). By doing so, Korea could potentially pursue more effective policies toward an open market, and provide greater legitimacy with respect to the government's trade policies.

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Appendix

Table A-1. Reduced Form Equation for Import Penetration

	Pooled Data for 1980s (1982-1985)			Pooled Data for 1990s (1991-1994)		
	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
Constant	-17.23911	-1.548383	0.1228	4.525772	1.423648	0.1557
Employment	0.002551***	6.887132	0.0000	0.000267***	2.938458	0.0036
Inventory	0.000213**	2.391091	0.0175	1.61E-05*	1.714260	0.0876
Investment	-0.000191***	-3.014685	0.0028	-2.50E-06	-0.995898	0.3202
Land	2.23E-06	1.329070	0.1850	8.52E-07***	3.205509	0.0015
Wage	-0.000480**	-2.013948	0.0451	-4.33E-06	-0.343301	0.7316
Capital	2.26E-05	0.701659	0.4835	-3.32E-06**	-2.089998	0.0376
Production Cost	-3.67E-06	-0.230319	0.8180	2.29E-07	0.119648	0.9049
Value-Added	-0.000101	-1.433185	0.1531	-5.98E-06	-1.624348	0.1055
Market Concentration	0.160855	0.801299	0.4237	-0.008090	-0.143242	0.8862
R-Squared	0.499609			0.180612		
Adjusted R-Squared	0.481450			0.153095		
F-Statistic	27.51252			6.563700		
Prob. (F-Statistic)	0.000000			0.000000		
Number of Observations	258			278		
Dependent Variable	Inverse Import Penetration Ratio (X/M)			Inverse Import Penetration Ratio (X/M)		

Note: * significant at 10%; ** significant at 5%; *** significant at 1 %

Table A-2. Wald-test Results

	Periods	Organization dummies	$\gamma+\delta$	F-statistic	p-value
Class organizations	Pre-democratization	Big businesses	0.0064	6.3907	0.0121
	Post-democratization	Big businesses	0.0026	2.1087	0.1476
		SMEs	0.0003	0.2263	0.6346
		Big businesses +SMEs	0.0005	0.6357	0.4260
Industry organizations	Pre-democratization	Small number of firms	0.0140	16.7847	0.0001
	Post-democratization	Small number of firms	0.0072	2.8870	0.0904
		Large scale value-added	0.0006	0.8046	0.3705
		High capital intensity	0.0078	2.1576	0.1430
		High labor intensity	0.0010	2.1956	0.1395

Table A-3. Sensitivity Analysis for the Case of Large Business Dummy Variable in the 1980s

Omitted instrument	γ	δ	$\gamma+\delta$	α_L	β
Employment	-0.000234	0.006581	0.006347	0.035557	0.993461
Inventory	-0.000235	0.005727	0.005492	0.041034	0.994304
Investment	-0.000234	0.006404	0.006170	0.036540	0.993635
Land	-0.000235	0.005481	0.005246	0.042875	0.994548
Wage	-0.000234	0.006799	0.006565	0.034417	0.993245
Capital	-0.000234	0.006665	0.006431	0.035109	0.993378
Production cost	-0.000230	0.011060	0.010830	0.020796	0.989058
Value-added	-0.000234	0.005933	0.005699	0.039440	0.994101
Market concentration	-0.000234	0.006588	0.006354	0.035519	0.993454

Table A-4. Sensitivity Analysis for the Case of Large Business Dummy Variable in the 1990s

Omitted instrument	γ	δ	$\gamma+\delta$	α_L	β
Employment	-0.001123	0.003186	0.002063	0.352480	0.996821
Inventory	-0.001213	0.005174	0.003961	0.234441	0.994846
Investment	-0.001122	0.003171	0.002049	0.353832	0.996835
Land	-0.001119	0.003107	0.001988	0.360154	0.996899
Wage	-0.001095	0.002583	0.001488	0.423926	0.997421
Capital	-0.001144	0.003654	0.002510	0.313082	0.996355
Production cost	-0.001306	0.007222	0.005916	0.180836	0.992820
Value-added	-0.001100	0.002684	0.001584	0.409836	0.997320
Market concentration	-0.001128	0.003313	0.002185	0.340477	0.996694

Table A-5. Sensitivity Analysis for the Case of SMEs Dummy Variable in the 1990s

Omitted instrument	γ	δ	$\gamma+\delta$	α_L	β
Employment	-0.002105	0.002485	0.000380	0.847082	0.997516
Inventory	-0.002011	0.002276	0.000265	0.883568	0.997725
Investment	-0.002098	0.002469	0.000371	0.849737	0.997532
Land	-0.002184	0.002659	0.000475	0.821361	0.997342
Wage	-0.002241	0.002784	0.000543	0.804957	0.997218
Capital	-0.001983	0.002215	0.000232	0.895260	0.997786
Production cost	-0.001875	0.001976	0.000101	0.948887	0.998024
Value-added	-0.002262	0.002829	0.000567	0.799576	0.997173
Market concentration	-0.002099	0.002471	0.000372	0.849454	0.997530

**Table A-6. Sensitivity Analysis for the Case of Large Business plus SMEs
Dummy Variable in the 1990s**

Omitted instrument	γ	δ	$\gamma+\delta$	α_L	β
Employment	-0.002441	0.002961	0.000520	0.824384	0.997041
Inventory	-0.002566	0.003213	0.000647	0.798631	0.996789
Investment	-0.002440	0.002958	0.000518	0.824882	0.997044
Land	-0.002468	0.003015	0.000547	0.818574	0.996987
Wage	-0.002408	0.002893	0.000485	0.832354	0.997108
Capital	-0.002348	0.002773	0.000425	0.846736	0.997228
Production cost	-0.002618	0.003318	0.000700	0.789030	0.996684
Value-added	-0.002505	0.003091	0.000586	0.810417	0.996911
Market concentration	-0.002788	0.003663	0.000875	0.761125	0.996340

**Table A-7. Sensitivity Analysis for the Case of Small Number of Firms
Dummy Variable in the 1980s**

Omitted instrument	γ	δ	$\gamma+\delta$	α_L	β
Employment	-0.000241	0.013588	0.013347	0.017736	0.986591
Inventory	-0.000241	0.012490	0.012249	0.019295	0.987661
Investment	-0.000242	0.014114	0.013872	0.017146	0.986079
Land	-0.000241	0.012996	0.012755	0.018544	0.987168
Wage	-0.000241	0.013586	0.013345	0.017739	0.986593
Capital	-0.000242	0.014698	0.014456	0.016465	0.985511
Production cost	-0.000243	0.023335	0.023092	0.010414	0.977192
Value-added	-0.000241	0.013024	0.012783	0.018504	0.987140
Market concentration	-0.000242	0.014211	0.013969	0.017029	0.985985

**Table A-8. Sensitivity Analysis for the Case of Small Number of Firms
Dummy Variable in the 1990s**

Omitted instrument	γ	δ	$\gamma+\delta$	α_L	β
Employment	-0.001076	0.007721	0.006645	0.139360	0.992330
Inventory	-0.001192	0.016882	0.015690	0.070608	0.983379
Investment	-0.001081	0.008153	0.007072	0.132589	0.991904
Land	-0.001076	0.007738	0.006662	0.139054	0.992313
Wage	-0.001063	0.006735	0.005672	0.157832	0.993303
Capital	-0.001115	0.010845	0.009730	0.102812	0.989260
Production cost	-0.001223	0.019346	0.018123	0.063217	0.980998
Value-added	-0.001074	0.007607	0.006533	0.141186	0.992442
Market concentration	-0.001083	0.008344	0.007261	0.129794	0.991716

**Table A-9. Sensitivity Analysis for the Case of Large Value-added Dummy
Variable in the 1990s**

Omitted instrument	γ	δ	$\gamma+\delta$	α_L	β
Employment	-0.002411	0.002977	0.000566	0.809876	0.997025
Inventory	-0.002008	0.002139	0.000131	0.938756	0.997861
Investment	-0.002479	0.003119	0.000640	0.794806	0.996883
Land	-0.002408	0.002971	0.000563	0.810502	0.997031
Wage	-0.002384	0.002922	0.000538	0.815880	0.997080
Capital	-0.002354	0.002859	0.000505	0.823365	0.997142
Production cost	-0.002256	0.002655	0.000399	0.849718	0.997346
Value-added	-0.002129	0.002391	0.000262	0.890422	0.997610
Market concentration	-0.002251	0.002644	0.000393	0.851362	0.997357

**Table A-10. Sensitivity Analysis for the Case of High Capital Intensity
Dummy Variable in the 1990s**

Omitted instrument	γ	δ	$\gamma+\delta$	α_L	β
Employment	-0.000953	0.009011	0.008058	0.105760	0.991061
Inventory	-0.000949	0.010780	0.009831	0.088033	0.989325
Investment	-0.000954	0.008904	0.007950	0.107143	0.991166
Land	-0.000955	0.008539	0.007584	0.111840	0.991525
Wage	-0.000950	0.010095	0.009145	0.094106	0.989996
Capital	-0.000953	0.009110	0.008157	0.104610	0.990964
Production cost	-0.000950	0.010322	0.009372	0.092036	0.989774
Value-added	-0.000951	0.009887	0.008936	0.096187	0.990201
Market concentration	-0.000954	0.008748	0.007794	0.109053	0.991320

**Table A-11. Sensitivity Analysis for the Case of High Labor Intensity
Dummy Variable in the 1990s**

Omitted instrument	γ	δ	$\gamma+\delta$	α_L	β
Employment	-0.002621	0.003767	0.001146	0.695779	0.996237
Inventory	-0.001986	0.002310	0.000324	0.859740	0.997691
Investment	-0.002546	0.003594	0.001048	0.708403	0.996410
Land	-0.002543	0.003588	0.001045	0.708751	0.996416
Wage	-0.002394	0.003247	0.000853	0.737296	0.996756
Capital	-0.002564	0.003637	0.001073	0.704977	0.996367
Production cost	-0.002409	0.003281	0.000872	0.734227	0.996722
Value-added	-0.002267	0.002955	0.000688	0.767174	0.997047
Market concentration	-0.002568	0.003647	0.001079	0.704140	0.996357

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Democracy and Trade Policy: the Role of Interest Groups

Kyounghee Lee

As a democracy develops and matures, the number of interest groups attempting to voice their interests with respect to trade policies tends to increase, and sometimes governments collide with them in the process of enacting restraints. This paper aims to investigate empirically the role of interest groups in Korea's trade policy, utilizing the Grossman and Helpman model (1994). Contrary to prevailing wisdom, the results of our empirical investigation suggest that a greater level of participation by diverse interest groups actually promotes trade liberalization, as different groups offset each other's demands in the act of obtaining government protection. The findings imply that "openness and pluralism" with respect to interest groups is necessary if better strategies for trade liberalization are to be developed.

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