Transformation of the 'Developmental State' in Republic of Korea, 1997-2007

Dissertation submitted to Jawaharlal Nehru University

in partial fulfillment of the requirements for the award of the degree of

MASTER OF PHILOSOPHY

Ranjit Kumar Dhawan

Korean Studies Division

Centre for East Asian Studies

School of International Studies

JAWAHARLAL NEHRU UNIVERSITY

NEW DELHI 110067

2011

जवाहरलाल नेहरू विश्वविद्यालय
CENTRE FOR EAST ASIAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI- 110 067 (INDIA)

Phones : 91-11-2670 4346
Fax : 91-11-2670 4346

Date: 18th July 2011

DECLARATION

I declare that the dissertation entitled **"Transformation of the 'Developmental State' in Republic of Korea, 1997-2007"** submitted by me in partial fulfillment of the requirements for the award of the degree of **Master of Philosophy** of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other university.

Ranjit Kumar Dhawan.

Ranjit Kumar Dhawan

CERTIFICATE

We recommend that this dissertation be placed before the examiners for evaluation.

Lalima Varma

Prof. Lalima Varma

Chairperson, CEAS

Chairperson
Centre For East Asian Studies
School of International Studies
Jawaharlal Nehru University
New Delhi - 110067

Dr. Jitendra Uttam

Supervisor

SUPERVISOR
Centre for East Asian Studies
School of International Studies
Jawaharlal Nehru University
New Delhi - 110067

ACKNOWLEDGEMENT

The rapid economic growth and development of the Republic of Korea had been admired all over the world. To me, the name Korea, not only represents a country but it's an idea, an idea to take poverty, backwardness and ignorance head-on. Korea is thus a very interesting country to make a comparative study in the developmental politics and economics. When most of the post-colonial states in the world including India have failed to ensure decent living standards to their vast majority of population, Korea succeeded in eliminating poverty in such a small period. I pay my deep regards to the brave and hard working people of Korea.

In this study on the Korean state, I pay my serious regards to my supervisor Dr. Jitendra Uttam, whose teachings and writings inspired me to undertake this study. I am also seriously obliged to Jawaharlal Nehru University, which has given me so much all these years. I am thankful to the library facility and online access to the journals provided by the University.

The support of my friends and colleagues were very crucial throughout the period when I was writing this dissertation. The support of my Centre and staff members was equally very important. I am thankful to them.

Ranjit Kumar Dhawan

Ranjit Kumar Dhawan

Jawaharlal Nehru University, New Delhi

Dedicated to my teachers

CONTENTS

List of Figures:

List of Tables:

Abbreviations

BIS	Bank of International Settlements
BOK	Bank of Korea
DSIP	Daeduck Science and Industrial Park
KDIC	Korea Deposit Insurance Corporation
DRAM	Dynamic Random Access Memory
EPB	Economic Planning Board
ELI	Export Led Industrialistion
FKI	Federation of Korean Industries
FSC	Financial Supervisory Commission
FSS	Financial Supervisory Service
FDI	Foreign Direct Investment
FMT	Free-Market Theory
GDP	Gross Domestic Product
GATT	General Agreement on Trade and Tariff
GNP	Gross National Product
GMT	Governed-Market Theory
GRI	Government Research Institute
HCI	Heavy and Chemical Industrialisation
ISI	Import Substitution Industrialisation
ICT	Information and Communication Technologies
IPR	Intellectual Property Right
IFI	International Financial Institutions
IMF	International Monetary Fund
IT	Information Technology
KAMCO	Korea Asset Management Corporation

KCIA	Korea Central Intelligence Agency
KIST	Korea Institute of Science and Technology
MCI	Ministry of Commerce and Industry
MOFE	Ministry of Finance and Economy
MOGAHA	Ministry of Government Administration and Home Affairs
MIC	Ministry of Information and Communication
MITI	Ministry of International Trade and Industry
MPB	Ministry of Planning and Budget
MPC	Monetary Policy Committee
NRDP	National Research and Development Programmmes
NBFIs	Non-Banking Financial Institutions
NBLS	National Basic Livelihood Security
NIC	Newly Industrialised Country
NIE	Newly Industrialised Economy
NGO	Non-Governmental Organisations
NPL	Non-Performing Loans
OECD	Organization for Economic Cooperation and Development
R&D	Research and Development
RCS	Research Council System
SMT	Simulated-Market Theory
SMBA	Small and Medium Business Administration
SME	Small and Medium-sized Enterprises
SRA	Self-Reliance Assistance
SIC	Start-up Investment Companies
NSTC	National Science and Technology Council
TNCs	Transnational Corporations
WTO	World Trade Organization

DEMOCRATIC PEOPLE'S REP. OF KOREA
SEA OF JAPAN (EAST SEA)
YELLOW SEA
REPUBLIC OF KOREA
Nationl capital
Provincial capital
Town, village
Major airport
International boundary
Demarcation Line
Provincial boundary
Expressway
Main road
Railroad
Anak
Sariwon
Hungsu-ri
Sinmak
Hoeyang
Sinchon
Chaeryong
Pyongsan
Pyonggang
Changyon
Ayang-ni
Pyoksong
Haeju
Kaesong
Panmunjon
Ongjin
Sigyo-ri
Yeoncheon
Dongducheon
Sokcho
Chuncheon
GYEONGGI-DO
GANGWON-DO
Gangneung
Hongcheon
Gimpo
SEOUL
Donghae
Samcheog
Incheon
Hoengseong
Anyang
Wonju
Jeongseon
Suwon
Yeoju
Osan
Jungju
Jecheon
Anseong
Pyeongtaek
Eumseong
Chungju
Uljin
Cheonan
CHUNGCHEONG-BUKDO
Taean
Seosan
Yesan
Yeongju
Yecheon
Cheongju
Andong
CHUNGCHEONG-NAMDO
GYEONGSANG-BUKDO
Boryeong
Daecheon
Gongju
Daejeon
Gyuam
Buyeo-eup
Ganggyeong
Nonsan
Yeongdong
Gumi
Geumsan
Gimcheon
Seocheon
Yeanmudae
Janghang
Iksan
Pohang
Muju
Samnye
Daegu
Gimje
Jinan
Gyeongju
Jeonju
Janggye
JEOLLA-BUKDO
Jeongeup
Ulsan
Miryang
Namwon
GYEONGSANG-NAMDO
Yonggwang
Jinju
Changwon
Gimhae
Masan
Busan
Gwangju
Ungcheon
Naju
Muan
Sacheon
Suncheon
Goseong
JEOLLA-NAMDO
Gwangyang
Tongyeong
Mogpo
Namhae
Yeongam
Byeongyeong
Jangheung
Yeosu
Gangjin
Goheung
Kamitsushima
Haenam
Jindo
Korean Strait
Tsushima
© Nations Online Project
SOUTH KOREA
Jeju
Jeju-do
JEJU-DO
Moseulpo
Seogwipo
0 25 50 75 100 km
0 25 50 75 mi
JAPAN
Sasebo
38°
37°
36°
35°
34°
33°
125°
126°
127°
128°

CHAPTER 1

CHAPTER 1: INTRODUCTION

The great Indian poet Rabindra Nath Tagore, during his visit to Japan in 1929 wrote,

In the golden age of Asia
Korea was one of its lamp-bearers
and that lamp is waiting to be lighted once again
For the illumination in the East.

This four line English poem by Tagore in honour of Korea was published in Donga Daily Newspaper and it inspired Koreans to regain their national pride, when Koreans were struggling under the Japanese colonial rule. What Tagore predicted decades back, seems to have come true, Korea has indeed become the 'Lamp of the East'. Today, Republic of Korea (here in after referred as Korea) can boast of a robust economy with high per capita income. In spite of the devastating Japanese colonial rule, Korean War (1950-53) and national division, Korea emerged as one of the most successful case amongst the post colonial states. An underdeveloped, poverty stricken, war torn economy transformed itself into an industrialised and developed economy in a matter of few decades. Korea became a Newly Industrialised Country (NIC) and joined Organisation for Economic Cooperation and Development (OECD) in 1996.

If one looks back into the history, then it would be surprising that during the years soon after independence, Korea was one of the 25 poorest countries in the world, American analysts regarded Korea as a 'hopeless case' amongst the third world countries (Pirie, 2008: 1). The Philippines was considered by many Korean planners as a nearly unreachable role model (Minns, 2001: 1025). During 1960s Korean economic level was comparable to that of countries like Ghana. However, its per capita income rose from $ 82 in 1960 to $ 11,000 in 1997 and growth rates, which averaged 3.4 percent per annum during 1954-62, have exceeded over 10 per cent per annum since 1965. The 1960-95 period saw a stunning 238-fold increase of the total GNP (from 1.9 billion dollars to 451.7 billion dollars) and a 128-fold increase of the per capita GNP (from 79 dollars to 10,076 dollar). In the same period, total exports expanded by 3,813 times (from 33 million dollars to 125.058 billion dollars) and total imports by 393 times (from 344 million dollars to 135.119 billion dollars) (Kyung-Sup, 1999: 32). This rapid transformation has been popularly regarded as 'Miracle on Han river'.

How was this miracle brought about? When most of the other post colonial states failed to ensure minimal living standards to their population, Korea achieved marvelous economic growth. A vast volume of literature has been generated on this issue. While neo classical economists attribute the Korean economic success to an outward looking development strategy, market conforming state intervention and human capital investment; historical structuralists identify macro-historical forces and their conjectural dynamics as prerequisites to the capitalist development in Korea (Moon and Kim, 1996: 141). Some scholars have also ascribed the Korean miracle to its Confucian culture, authoritative structures and social networks. More recently, however, the developmental state[1] paradigm has emerged as a powerful alternative to the neoclassical explanation of the Korean miracle. According to this view, Korea's impressive economic performance is not simply a product of market or cultural factors and historical legacies, but an outcome of conscious efforts by the state (ibid). A closer look into this success story reveals that Korean state actively intervened in the economic development. An alliance between state, big business groups (*chaebols*) and banks played a pivotal role in the export led growth in Korea. In fact Korean state along with other East Asian countries became analogous to the developmental state. The success of 'plan rational capitalist development' in East Asia in general and Korea in particular falsified both neoliberal doctrines and dependency core-periphery analysis. It was neither a socialist model nor a free market economy, but somewhere in between, a state guided capitalist development. In other words, 'governing the market' (Wade, 1990) and 'getting the relative prices wrong' (Amsden, 1989) was the hallmark of the Korean developmental state.

[1] Chalmers Johnson coined the term 'Developmental State' in the context of his study of the role of MITI in the Japanese economic development, describes a symbiotic relationship between the state and big business, with a combination of public control and private ownership that has achieved rapid industrial development and sustained economic growth in some developing countries. Johnson constructed a Weberian ideal of an interventionist state that was neither 'plan-irrationalist', where ownership and management remain in the hands of the state as in the former socialist economies, nor free-market, but something different: the 'plan-rational' capitalist developmental state, conjoining private ownership with state guidance (Woo-cumings, 1999)

The political economy of development in post colonial societies did not follow the same trajectory as it happened in West. Developmental role became central to the post colonial states through interventionist policies and application of their overdeveloped state apparatuses. Starting under similar initial conditions as most of the underdeveloped, post colonial states were there in the aftermath of Second World War, Korea emerged as an economic powerhouse within few decades while other countries like India, Egypt, Pakistan,.etc. lagged behind. Thus, Korea represents a very interesting case among the third world countries where the state has played a pivotal role in the developmental process.

The rise of 'developmental state' under military general Park Chung Hee in 1961 guided the Korean economy towards export-led growth. The formation of a 'strong state' under Park successfully inhibited the penetration of interest groups into the decision making bodies. In the early stages of its economic development, Korea demonstrated all three of the 'essential ingredients' of the developmental state, which is transformative goals, the existence of a pilot agency (the Economic Planning Board) and institutionalised cooperation between the government and big business (Cherry, 2005: 331). The most important characteristic of the Korean development state system was the formation of state-big business alliance mediated by the financial support from the former to the later. With the control of finance, the state used a complicated system of subsidies and licensing, and even determined which firms would export and/or import and their product categories. As part of that decision, the government favoured the rise of a small group of family-owned conglomerates called *chaebol,* the top ten *chaebol* accounted for only 15.1 percent of GNP in 1974, but over 67 percent by 1984 (Amsden, 1989: 116). The Korean experience strongly suggests that state control and rational planning of an economy is required for industrial growth and transformation even under capitalism. The planning worked in Korea because the state had the power to discipline private capital if it did not make "appropriate" use of trade and financial support. Unlike in many developing states, where state subsidies were treated by industry as gifts, in Korea the state was able to extract performance from industry in return (Chibber, 1999: 310).

1.1 POLITICAL ECONOMY OF DEVELOPMENT IN KOREA SINCE INDEPENDENCE

Korea emerged as an independent nation in 1948, since then Korea has passed through many regimes and drastic changes in the constitution for several times. Each new regime proclaims itself as a new republic, thus there have been six republics so far. The country had remained under military rule for more than two and half decades since independence. After prolonged popular movements, the democratic system has been operating since 1987. Several constitutions were promulgated and each again was drastically amended to suit the designs of the ruler of the day.

In the context of political economy of development, Korea under the leadership of first President Syngmann Rhee adopted capitalist path. Like most of the post colonised countries, Korea also followed import substitution industrialisation (ISI) in the initial years after independence, in order to protect its nascent industries from competition from overseas. However the ISI strategy failed. The corrupt and undemocratic regime of Rhee could not effectively check rising inflation, unemployment and economic turmoil which gave impetus to massive protests by the masses, particularly the students.

> Growing corruption and rising inflation under the Rhee regime led to the student protests of April 1960 and the end of the First Republic. The Second Republic under Prime Minister Chang Myon, however, was unable to control either the political corruption or the economy, which continued to slump. Thus for both internal and external reasons, the military rose to fill the political power vacuum left by the collapse of the First Republic and the inability of the Second to make any headway in leading the country out of political and economic chaos (Hwang, 1996: 308).

Under these conditions of political and economic turmoil military general Park Chung Hee took over the power through coup and established a highly authoritarian regime. The state under Park's dictatorship was hard and largely insulated from interest groups. A staunch nationalist, Park was trained in Japanese military academy during colonial rule and had internalised many of the qualities of Japanese authoritarianism. Among some of the initial measures adopted by General Park was to transform the political economy of Korea from import substitution industrialisation to export led industrialisation. Taking advantage of the Cold War era international political economy, thrust towards export of goods to overseas markets gave boom to Korea's economic growth and development. According to Alice Amsden, Korea being a special case among late industrialised countries could successfully penetrate into highly competitive international market because of cheap wages, tight quality control mechanism, etc. The role of state remained central in this whole process. State devised various mechanisms such as financial repression, high debt-high growth, incentives to *chaebols* (family owned corporate) but strictly based on performance in the export-led economy. The Park regime also ensured to make a balance between rural and urban development through *saemaul undong* or new village community movement.

During 1970s, alarmed by US-China rapprochement, the U.S plans for withdrawal of troops from East Asia and first oil crisis, Korean state under Park gave emphasis on heavy and chemical industries, in order to reduce dependence on United States. Korean state initiated 'Big Push' by promoting heavy and chemical industrialisation (HCI). With this new focus, Korean economy moved from 'labour intensive' to 'capital intensive' phase. Throughout these years Korea experienced economic growth rates in double digits. Later after the assassination of President Park by KCIA chief, Chun Doo Hwan took over power and established second military regime in Korea. Chun administration adopted market strategies and liberalised economy in 1980s. The increasing pressure of democratic movements, changes in global political economy, forced Korean state to adopt neoliberal policies in 1980s. When the state tried to liberalise economy, as anticipated by ruling regime that successful economic reforms would mitigate the negative legacies and eventually bring political pay offs; contrary to the expectations, it delegitimised the Chun regime and precipitated the process of democratic opening (Moon and Kim, 1996: 148).

Democratisation was tantamount to opening Pandora's Box. Individuals and groups turned into maximisers of their particularistic interests. Under the leadership of President Kim Young Sam in 1990s, globalisation of economy (*segyehwa* in Korean), liberalisation of financial sector, etc were pursued. The process of creating a more open and transparent economy inevitably weakened the government's ability to use tools such as credit control, resource allocation, incentives and subsidies to achieve its developmental goals and meant , therefore, a reduction in the degree of state intervention in economic activity (Cherry, 2005: 331). In fact democratisation in Korea and measures adopted by President Kim Young Sam paradoxically helped Korean *chaebols,* which went ahead with irrational expansion of their corporations without keeping profit considerations by borrowing from international financial institutions, short term and speculative capital. This later became the major cause of 1997 financial crisis in Korea.

The financial crisis was a strong jolt to Korea and its *chaebols*. It was the worst economic crisis since the Korean War. The mentality of "too big to fail" got a big blow. This was an earth shaking event which manifested the inherent weaknesses of Korean political economy. The 'crony capitalism' in Korea was blamed, as the single major reason for the financial crisis. The Korean state under pressures from IMF made major structural changes. Kim Dae Jung went ahead with reform measures, restructured financial system, corporate organisation and bureaucratic apparatus. With these several key structural changes in the Korean political economy, Korea is moving more towards market-based principles. The state has opted for more openness and competition, encouraged participation of selected groups in policy discussions, and paid attention to social sector and social safety net issues (World Bank, 2000). These changes have brought about the transformation of the developmental state in Korea. Korean state along with other East Asian 'developmental states' witnessed a profound change in the nature, structure and operation of state system that led to the increased interest in research on the transformation of the developmental state in Korea.

1.2 LITERATURE REVIEW

The literature available on the issue of the transformation of the developmental state in Korea, have selectively discussed one or the other factor which has led to the changes in the policies and institutions in Korea. While John Minns (2001) has attributed the domestic labour movements as a major reason for the demise of the developmental state, Iain Pirie (2008) regards changes in the structures of the global economy such as the third industrial revolution, the rise of the global financial market and ever increasing cost of the R&D to remain competitive in the global market had made neoliberal restructuring in Korea inevitable. Bruce Cumings (1998) has regarded the end of Cold War as one of the major causes that brought an end to the mercantilist developmental strategies. Lim and Jang (2006) attribute the corrupt nexus between the state and the business groups (also conotated negatively as *jeongkyung yuchak* in Korean) as one of the major reasons to the failure of the developmental coalition. Many other scholars like Sook-Jong Lee and Taejoon Han (2006) have blamed IMF intervention after the financial crisis has fundamentally altered and reshaped Korea's developmental strategy, which has led to the demise of Korea Inc. and the symbiotic relationship that was shared between the state and the corporate sector. According to them among all the reform measures undertaken in response to the financial crisis, it is the policy changes affecting foreign investment that produced what amounts to the paradigm shift in Korea's well-known model of developmental state. David Hundt (2005) argues that the Korean state adopted neoliberal measures in order to religitimise itself and to regain control of the policy-making agenda. According to Hundt, the impetus for reform came from Korean political and economic elites rather than external actors such as the IMF. Despite strong opposition from the *chaebols*, the state has reinvented itself as the facilitator of financial and industrial restructuring (Hundt, 2005: 243).

Though the arguments presented by all the scholars are quite important and insightful but they have failed to take a holistic approach of all the factors, endogenous as well exogenous that brought about the transformation of the developmental state in Korea. Also, those blaming IMF or even end of Cold War as the primary cause for neoliberal restructuring fails to recognise the fact that the demands for neoliberal reforms were emanating from the indigenous sources and the state had initiated neoliberal measures long back before the Asian financial crisis (1997) hit Korea in a big way.

On the issue of defining the post-crisis state in Korea, the scholars are divided. For some Korea should now be considered a neoliberal state, others regard it as a post-developmental state. For Iain Pirie, Korea should now be considered a neoliberal state, as the state no longer controls the financial system, which was one of the major policy instruments of the developmental state. But for Linda Weiss (2000), the developmental states in general and Korea in particular are in transition: adapting, dismantling, innovating and not 'normalising'. According to Weiss Korean state is creating streamlined national champions to make them more efficient. Left-Keynesian scholars such as Ha-Joon Chang (2002), James Crotty and Kang-Kook Lee (2005) are highly critical of the neoliberal policies adopted after the crisis. According to them a neoliberal state is emerging in Korea but neoliberal restructuring has put Korea into a low investment/ low growth trajectory.

While Iain Pirie's argument that neoliberal restructuring has more to do with transformation of the state than rolling back of the state has some merit. But considering Korea as a neoliberal state would be gross simplification of the facts. Definitely Korean state has adopted neoliberal policies but it is still very powerful and intervenes in the market process, though not directly but indirectly. After the crisis the ability of the corporate sector to invest in R&D sector was severely constrained. Under these circumstances it was not the international financial institutions but the state came to reassert itself by throwing credit line to rescue and support techno-scientific research in Korea.

1.3 RATIONALE AND SCOPE OF THE STUDY

The transformation of the developmental state in Korea has put a question mark on the viability of the developmental model in the changing global political economy. The structural changes in the global economy have made the previous era developmental policies unviable. Also with the economic development, the domestic groups became more powerful and started putting pressures on the state to make considerable changes in the developmental policies. In other words the interest groups became emboldened and undermined the autonomy of the developmental state in Korea.

In the recent years, particularly after the Asian financial crisis of 1997, Korean state has adopted many neoliberal policies, made changes in the financial structures, bureaucratic apparatus and industrial organisation. These changes have brought about a transformation of the developmental state in Korea. However, the Korean state in its new neoliberal-regulatory mechanisms still intervenes in the market process. The neoliberal policies adopted by the state have not made it a classical neoliberal minimalist state. The structural changes have also brought about changes in the socio-economic realm in

Korea. The earlier era 'jobs for life policy' has vanished away with the neoliberal restructuring. The casualisation of labour has become new norm. There had also been speculations that Korea shall not be able to 'keep-up' with the other OECD countries in the coming times.

This study is an attempt to understand the factors which led to the transformation of the developmental state in Korea. The study is skeptical about the assumptions that neoliberal state is a 'minimalist state' and argues that adoption of neoliberal policies basically means restructuring of the state apparatus and not the retreat of the state. The study also tries to understand the new mechanisms being devised by the Korean state to meet new challenges and to mitigate socio-economic fallouts of the neoliberal restructuring. Taking a holistic approach this study looks into both the domestic and international variables and sub-variables which have brought about the transformation of the developmental state in Korea. The study is both descriptive as well as analytical. The research employs both inductive and deductive methods and the qualitative analysis has been used. The study is constrained by the lack of study materials and primary sources.

1.4 RESEARCH QUESTIONS

What is the concept of 'developmental state? Which factors led to the transformation of the developmental state in Korea? Why did the Korean state undergo such massive transformations after the 1997 financial crisis? Has the neoliberal restructuring made the Korean state a minimalist state? Has the contemporary neoliberal restructuring brought about convergence of the global economy towards the so-called Anglo-American model? Has the development state lost its significance in the wake of changing global political economy or is it still relevant? What is the role of the state in the techno-scientific development in Korea? What are the socio-economic consequences of the structural changes in Korea?

1.5 ORGANISATION OF THE DISSERTATION

The dissertation is organised in six chapters including introduction (Chapter 1) and conclusion (Chapter 6). Chapter 2 gives a theoretical understanding of the developmental state. Developmental state has roots in the Keynesian theory which endorses the role of the state in the management of demand and supply. The term, 'developmental state' was given by Chalmers Johnson in context of the role of the Japanese state in the nation's development. The miraculous rise of the East Asian economies initiated far reaching theoretical debates on the crucial role of the state in the economic development. Chapter 3 discusses the evolution and change in the Korean 'developmental state'. Developmental State in Korea evolved due to the needs of late-late industrialisation where state made economic development its top priority. However, the 'growth-first strategy' adopted by the 'developmental state' started to malfunction due to the end of the Cold War, economic globalisation and rise of knowledge economy. On the domestic front, democratic consolidation against authoritarian regime, rising regional disparities and corrupt state-business coalition were challenging the policies of the developmental state. Responding to these challenges, developmental state, adopted various changes in its structure and nature. Chapter 4 is on the transformation of the Korean 'developmental state' towards 'Techno-Scientific state'. This chapter is basically a case study where the concept of neoliberal-minimalist state has been contested. This chapter gives an account of the changing roles of the transformed state in Korea particularly in the development of techno-scientific sphere. Chapter 5 is on the consequences of the structural changes in Korea. This chapter deals with the economic and social consequences of the transformation of the 'developmental state' in the aftermath of the 1997 financial crisis. The neo-liberal policies could have serious consequences as they can accentuate regional disparities and income inequalities in Korea. Chapter 6 concludes that Korean developmental state, indeed transformed, however research findings of this study contest complete neo-liberal transformation of 'developmental state' and argue that developmental state has transformed to meet new challenges and has not become a neoliberal-minimalist state.

CHAPTER 2

CHAPTER 2: 'DEVELOPMENTAL STATE': A THEORETICAL CONTEXT

The concept of state as a political entity has been debated and deliberated since the days of ancient Greeks and Romans. For Aristotle, the state was the highest creation of man and who do not live in the state was either a beast or God. Social contractualists, such as Thomas Hobbes and John Locke argued that state arose out of a voluntary agreement or social contract, made by the individuals who recognised that only the establishment of a sovereign power could safeguard them from the insecurity, disorder and brutality of the state of nature. For Hegel, the state was the march of God on earth and the moment unfolding the highest morality in the ethical life of the man. Marx defined state as the instrument of the bourgeoisie and the superstructure of the class society. In the writings of Max Weber, the state is an instrument of domination and legitimate violence.

The rise of the modern nation states had its origin in the treaty of Westphalia of 1648, when the territoriality and sovereignty of the states in Europe were given legal sanctity. The decline of the power of the church, the growth of secular values during renaissance and reformation period, that made demarcation between the sacred and profane or between the religious and the political authority were vital for the rise of the modern state system. The subsequent period witnessed the growing power of the state and diversification of its functions. This period also witnessed the growth of liberal ideas and breakdown of the feudal order. The rise of liberalism was accompanied with the rise of capitalism and industrial revolution in the West. The rise of capitalism was a significant phenomenon, which brought about fundamental changes in the mode of production. The earlier era of the rise of capitalism saw the rise of mercantile capitalism, which was followed by industrial capitalism and later finance capitalism. The role of the state in the economic development throughout these phases kept on swinging from one extreme to the other, which is from the extensive intervention to the minimal intervention. In other words the prominence of state on the one hand and the market on the other hand kept on shifting.

The advocates of free market economy such as Adam Smith, David Ricardo, etc. made scathing attacks on paternalistic state. The central idea of these theorists was that the market has a self-regulating mechanism, which should not be distorted through state interventions, as market competition was good for the economic growth. In the famous words of Adam Smith, "it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest". The 'invisible hand' of the market creates self regulatory mechanism and leads to the generation of wealth. The Great Depression (1929-33) during the inter war period was an eye opener when the belief in the self regulating role of the market forces began to be questioned. The emergence of Keynesian economics and varieties of social democracies advocated for the welfare state. The book by John Maynard Keynes, "*The General Theory of Employment, Interest and Money*" published in 1936 became the seminal piece of work in this direction. The welfare state model justified the intervention of the state in the market through planning and controls in order to tame the market forces and endorsed role of the state in the management of demand and supply. In the post-World War II period a variety of welfare-interventionist regimes emerged. According to the noted scholar Ha Joon Chang this, was the period of 'Golden Age Economics'

> The end of World War II witnessed the world-wide rejection of the *laissez faire* doctrine which had failed so spectacularly during the interwar period. During the following quarter century or so, which is commonly known as the Golden Age of Capitalism, a variety of interventionist economic theories such as welfare economics, Keynesianism and the early 'developmental economics' set the agenda for the debate on the role of the state. These interventionist theories, which I collectively call 'Golden Age Economics' (GAE), identified a horde of 'market failures' and argued that active state involvement was necessary in order to correct these failures. Although the exact types and forms of policies recommended by different branches of GAE were different from each other, it was widely agreed that a 'mixed economy' of one sort or another was necessary and desirable (Chang, 2002: 540).

Most of the post-colonial states adopted the interventionist mechanisms for the economic development. Due to the weakness of the national bourgeoisie, lack of infrastructures, basic resources, etc, the role of the state became indispensable for the economic modernisation and development of the country. Majority of the post-colonial states adopted import substitution industrialisation (ISI) strategy by erecting high tariffs in order to protect their nascent indigenous industries from foreign competition.

> In the 1950s and 1960s, economists identified a key role for governments in correcting market failures; a role that was more important in developing countries,

> where savings were scarce, exports were limited to primary products, domestic markets were small, underemployment was high and there was lack of experienced entrepreneurs......In the 1960s Gerschenkron had used a three-country paradigm to explain the catching-up process by which 'late developers' imitated the successful development strategies of more advanced nations. The state played a central role in this process by mobilizing resources and implementing strategies to create new industries and promote economic growth (Cherry, 2005: 330).

However this model came under attack during 1970s with the rise of neo-liberalism and libertarianism which was manifested in the policy shift in the 1980s in the United States and Britain under Ronald Reagan and Margaret Thatcher respectively. Once again market forces gained upper hand. In the book, '*Anarchy, State and Utopia*', published in 1974 by Robert Nozick, a Harvard professor and an exponent of libertarianism, profoundly advocated for the rolling back of the state. The idea of the free market-liberal order had been campaigned by the capitalist West and by the Bretton Wood institutions such as World Bank, International Monetary Fund (IMF), General Agreement on Trade and Tariff (GATT) since post war period, and their later period avatar World Trade Organization (WTO) which came into being after Uruguay round of talks in1995.

The Anglo-American model of capitalist economic development came into serious conflict with the communist state-controlled economic model. The mutual rivalry of these two varieties of the political economy was the cause of the Cold War, which finally ended with the demise of Soviet Union and erstwhile communist bloc in 1991. But within capitalist model East Asian states were behaving differently, as there were significant state interventions, which was contrary to the Anglo-American model. The East Asian states were performing remarkably and were generating spectacular economic growth. The developments in this region were falsifying the arguments of scores of dependency analysts on Latin America[2]. In this case 'peripheral' economies were moving towards the 'core'. What was this 'model' after all? This model was basically a plan rational, state-

[2] In 1948, United Nations established a commission named Economic Commission for Latin America (ECLA); the commission gave the thesis of 'historical structuralism'. The concept of dependency evolved in Latin America in 1960s.The scholars like Raul Prebish, Andre Gunder Frank, Immanuel Wallerstein, Dos Santos, etc made studies to find out the reasons behind under development of the countries in Latin America. They attributed the underdevelopment of these countries to the world capitalist system and core-periphery model of economic development.

guided capitalist development, which was overlooked by the western academia for decades, until some scholars threw light on it during 1980s. This raised a series of academic debates and writings, which termed East Asian states as the case of 'developmental states'. Several factors have been advanced to explain this remarkable track record such as high savings and investments, sound macroeconomic policy, balanced government budget, emphasis on education and human resource development, frugality and hard work, export-oriented growth strategy, market-friendly government intervention in the market and favourable economic conditions abroad (Jung, 1999: 33).

2.1 THE RISE OF THE CONCEPT OF 'DEVELOPMENTAL STATE'

The material and the economic achievements in the West became something which was to be emulated in the other parts of the world. The whole paradigm of development was created by the pioneers[3] of the industrial revolution. In the post-World War II period, this developmental paradigm was adopted and many a times localised by the underdeveloped, backward countries of the so-called second and the third world in order to "catch-up" to the West. One significant difference was that in these countries 'development' was a top-down process unlike in the West where it was a bottom-up process. In most of the under developed economies there was largely absence of indigenous bourgeoisie, as a result the role of the state became central to this idea of the 'catch-up to the West'. The state employed its overdeveloped state apparatus[4] to bring about social, political and economic development.

The idea of the developmental state can be traced to the writings of Friedrich List who argued that the less advanced nations should use the power of the state to catch up with the advanced nations. Later Karl Marx in his analysis of the revolutionary events in France between 1848 and 1851 advanced a rudimentary notion of the developmental state

[3] The British were the pioneers of the industrial revolution during the eighteenth century. The late industrialisers followed the pioneers through borrowed technologies and learning.

[4] According to Hamza Alavi, the post colonial state dominates the politics as well as the civil society because of its over-developed superstructure. The ideological as well as the coercive apparatuses of the post-colonial state, being overdeveloped in nature (as compared to their counterparts in the advanced capitalist countries) dominates all the indigenous social forces.

when he referred to the 'relative autonomous position of the state' in France under Louis Bonaparte[5]. Arising from a balance of class forces in the society, such a state was not, however fully autonomous as it still had as its fundamental objective of furthering the capitalist interests in general. Later in the writings of neo- Marxists, such as Nicos Poulantzas, the 'relative autonomy' of the capitalist state is argued.[6]

In the liberal writings, the state is argued as a neutral arbiter between various social groups. The state possesses autonomy with its legitimate control of power. The role of the state on the one hand and market on the other in the development has been fiercely questioned and debated in the liberal theory. The advocates of neo-classical liberalism argue that the state should limit itself to the minimum and leave market operations free, in other words they emphasise that free market operations that are not distorted by state intervention is key to economic success.

The miraculous rise of the East Asian economies initiated lot of theoretical debates on the role of the state in the economic development. Early theories in this regard argued that the economic development in East Asia including Korea was due to following the market principles by the minimal state interventions and market liberalisation, or if any those interventions were self-canceling or market preserving. This paradigm of orthodox/neoclassical economics was presented by neoliberal economists and international financial institutions (IFIs) like the IMF and World Bank. In fact World Bank came out with a report on East Asian economic miracle which attributed the East Asian miracle to macroeconomic basics, that is high saving and investment rates, expenditures on education and export, beside these the report highlighted the 'market friendly state intervention' by the East Asian states (World Bank, 1993). This line of explanation emphasises the primary role of free trade and export-oriented industrialisation in the Asian economic 'miracle' as well as the superiority of free-market

[5] For further reading, see *Eighteenth Brumaire of Louis Bonaparte* by Karl Marx (1852).

[6] On the 'relative autonomy' of the capitalist state, there is a debate between the instrumentalist and structuralist neo-Marxist thinkers. Ralph Miliband portrays the state as an agent or *instrument* of the ruling classes, stressing the extent to which the state elite is disproportionately drawn from the ranks of the privileged and propertied where as Nicos Poulantzas argues that the *structure* of economic and social power exerts a constraint upon the state autonomy.

principles while being critical of 'price-distorting' state intervention and bureaucratic 'rent seeking' (Lim and Jang, 2006: 3). This paradigm was influential in refuting Latin American dependency analysts and thus legitimising neoclassical arguments.

But the neoclassical explanations of the East Asian miracle were refuted by many real experiences as there were clear cases of heavy state interventions. Coming down heavily on the World Bank's report on 'economic miracle' in East Asia, Alice Amsden writes,

> This type of argument is doctrinaire because neoclassical economics, while taught with great vividness and conviction, is still only a theory. The policies associated with it do not automatically generate the outcomes they promise: for instance, it cannot be taken for granted that a set of "neutral," "market-conforming" investment policies will induce the "market conforming" industrial structure that neoclassical theory predicts. Between theory and practice lies a mountain of assumptions, many exogenously determined or beyond domestic policy manipulation (relating to, say, information, information, entrepreneurship and motivation, international price changes, and so forth). Unless enough of a model's tortuous assumptions are fulfilled, the implementation of its policy prescriptions may backfire and not generate the anticipated outcomes; or the predicted outcomes might emerge only after a lengthy and socially costly adjustment period. (Amsden 1994: 628)

Those opposed to the neoclassical interpretation of East Asian economic miracle came forward with an alternative theory, which is 'developmental state theory' (Woo-Cumings, 1999). Since the early 1980s, this theory has gained prominence, particularly with the study made by Chalmers Johnson in the context of the role of the state in Japan in its economic development. This new explanation of East Asian economic development emphasises the state's active role in the economy, and this has opposed the neoclassical explanation which is preoccupied with the free-market mechanisms of development. The researchers with the new explanatory perspective were called 'revisionists' because they were different from 'orthodox' economists in their understanding of economic development in East Asia.

Besides such efforts to explain economic development, the renewal of concern in state theory from a neo-Marxian paradigm to a neo-Weberian one during the early 1980s also contributed to the rise of this developmental-state approach elaborating theoretical concepts such as 'state autonomy' or 'state capacity'. Prominent in the early development of this framework was the publication in 1985 of '*Bringing the State Back In*', edited by Peter Evans, Dietrich Rueschemeyer and Theda Skocpol. They called for a new emphasis on the role of the state by political scientists and development economists. The conditions for successful state intervention in the developmental state were related to the embedded autonomy and effective capacity of the state (Evans, 1995).

Strong industrial policy such as the selective promotion of industry, financial control, various trade protections etc. is presented as the key of economic success. First, the state in East Asia had strong autonomy because there were no strong interest groups like land owners, capitalists, and workers and there was a long and strong bureaucratic tradition that led to the strong administrative capacity of the state. Second, a specific relationship between the state and the society was also essential factor to avoid government failure. The close and cooperative relationship between the government and private sector mitigated information problems and the mechanism of government's discipline over business like subsidies in return for performance limited rent-seeking. In addition to this, the principle of shared growth and external threat were also thought to be helpful for good governance and implementation of policy for development (Lee, 1999).

As already stated the seminal work in this new paradigm was Chalmers Johnson's study of the Japanese economic bureaucracy, the Ministry of International Trade and Industry (MITI), and industrial policy formulated and implemented by the ministry. This study focused on the bureaucracy's role in Japan's economic development after the Second World War. Johnson attempts to explain the state bureaucracy's active and strategic role in Japan's economic development, whose origin dates back to the 1930-1940s when similar bureaucratic activities were designed and adopted to effectively mobilise industrial resources for the war-time purposes (Lim and Jang, 2006: 4). He describes the Japanese case as a different economic model from both the American capitalist system and the Soviet state planning model. According to this typology, the Japanese model is 'plan rational' (developmental state) while the American model is 'market-rational' (regulatory state) and the Soviet model is 'plan-ideological'. He focuses his discussion mainly on the differences between the market-rational and the plan-rational economic models. As according to Johnson,

> In states that were late to industrialize, the state itself led the industrialization drive, that is, it took on developmental functions. These two differing orientations towards private economic activities, the regulatory orientation and the developmental orientation, produced two different kinds of business-government relationships. The United States is a good example of a state in which the regulatory orientation predominates, whereas Japan is a good example of a state in which the developmental orientation predominates (Johnson, 1982: 19).

Johnson's central contention is that Japan's quite remarkable and historically unparalleled industrial renaissance was because of the efforts of a 'plan rational' state. A plan rational or developmental state was one that was determined to influence the direction and pace of economic development by directly intervening in the development process, rather than relying on the uncoordinated influence of market forces to allocate economic resources. The developmental, or plan-rational, state, by contrast, has at its dominant feature precisely the setting of such substantive social and economic goals (Johnson, 1982: 19).

Further in this line of revisionist explanation of East Asian miracle, several scholars have come out with works focused on other countries of this region. Alice Amsden in her book '*Asia's Next Giant, South Korea and Late Industrialization*' (1989) considers Korea as a special case of late-late industrialisation and pays attention to efficient state-bureaucracy's role in Korea's technological learning and industrial transformation from its war torn condition of the 1950s into another economic giant of the region. She attributes this transformation to the state's "deliberately getting relative prices wrong" mechanism for achieving a long-term development goal (Lim and Jang, 2006: 4). The formation of a 'strong state' under Park Chung Hee guided the state towards an export led growth strategy. Beginning in 1960s, the state used the control over credit to make exports of light manufactures the engine driving the economy. Then, in the 1970s, a change in state policy, not private capital initiatives, shifted industrial priorities; the heavy and chemical manufacturing production began to drive the economy. The state, using a complicated system of subsidies and licensing, even determined which firms would export and/or import and their product areas. Three key institutional actors and their inter-relationship are prominent in workings of the Korean developmental-state, that is, the Korean economic model is noted to have been "based on a close collaboration between the state, banks, and the *chaebols*, with the state as the dominant player".

Peter Evans (1989) has described 'developmental states' as exhibiting the characteristics of "embedded autonomy", 'autonomy' of bureaucratised states from social entanglements gives them a capacity to direct social change and social 'embeddedness' in turn, especially the links these states forge with business and industrial classes, enable state elites to incorporate these powerful groups in the state's economic project. In a study on the development of the information technology sector in several states including Korea, Evans (1995) constructed three ideal-types of the state in terms of its developmental functioning, such as 'developmental', 'predatory', and 'intermediate' states. Evans considers Korea as a developmental state where as Zaire as the case of a predatory state and India and Brazil as intermediate states. He emphasised that state bureaucracy should be not only 'embedded' in the private sector, but also 'autonomous' of its particularistic interests in order to achieve domestically- based industrial transformation and further economic development.

Another important work in this field has been presented by Robert Wade. Wade (1990) has suggested a 'governed-market theory' (GMT) in his analysis of Taiwan's (and Korea's) industrialisation, which was also intended to refute a neoclassical 'free-market theory' (FMT) or a 'simulated-market theory' (SMT) of economic development. The Free Market (FM) theory (Friedman and others) attributes the economic success to the operation of free markets. The Simulated Market (SM) theory (Jagdish Bhagwati and others) theorises that the government acted to positively reduce market distortions, such as absence of complete information and inflated prices of products and factors. The later differs from the former in the distinction between a free trade regime and a neutral trade regime. The later is sought to be achieved by offering export subsidies and tax credits to offset the import premium resulting from tariffs and quantitative restrictions.

The Governed Market (GM) theory ascribes the East Asian success to three proximate causes that are traced to two broader causes. The governed market theory says that the superiority of East Asian economic performance is due in large measure to a combination of: (1) very high levels of productive investment, making for fast transfer of newer techniques into actual production; (2) more investment in certain key industries than would have occurred in the absence of government intervention; and (3) exposure of many industries to international competition, in foreign markets if not at home (Wade, 1990: 26). Wade believes that these were the result of economic policies: incentives, controls and risk spreading mechanisms, which produced different production and investment outcomes than would have resulted under FM or SM policies. Secondly, he also attributes it to a certain kind of organisation of the state and the private sector.

Adrian Leftwich (1995), in his article, "*Bringing Politics Back in: Towards a Model of the Developmental State*" defines the meaning of developmental state in following way:

> The political purposes and institutional structures of developmental states have been developmentally-driven, while their developmental objectives have been politically-driven. In short, fundamentally political factors have always shaped the thrust and pace of their developmental strategies through the structures of the state. These factors have normally included nationalism, regional competition or external threat, ideology and a wish to 'catch up' with the west. Thus developmental states may be defined as states whose politics have concentrated sufficient power, autonomy and capacity at the centre to shape, pursue and encourage the achievement of explicit developmental objectives, whether by establishing and promoting the conditions and direction of economic growth, or by organising it directly, or a varying combination of both (Leftwich, 1995).

In the context of Korea's postwar economic development, Meredith.Woo-cumings (1991) examined the important role of 'state-controlled' finance. She regards control of finance as the single most important tool of industrial growth in Korea. In her book, '*Race to the Swift: State and Finance in Korean Industrialization*' (1991), Woo-cumings challenges the dominant neo-classical assumptions of the Korean economic development; instead she gives weightage to the allocation of the finance by the state owned or dominated banks and repayment guarantees on the foreign loans to the industries targeted for development.

Eun Mee Kim (1997) has also examined a trajectory of the relationship between the state and big business (*chaebol*) changing from state-dominance ("comprehensive" developmental state) until the 1970s to symbiosis ("limited" developmental state) between the two actors in Korea's recent history (Lim and Jang, 2006: 5). A comprehensive developmental state following three major functions:

1) Provider of long-term goals for the economy. The state provides comprehensive economic development plans, long-term goals, and projections for the entire economy
2) Provider of capital and technology. The state provides capital for investment through domestic and foreign capital loans, capital assistance for research and development, and technology and technical assistance through national and regional research facilities
3) Provider of indirect assistance. The state acts as a mediator with multinational corporations for foreign direct investment and technology transfers, establishes trade offices for expertise on exports and imports, provides tax breaks and tariff exemptions, and eases regulations. These services, in particular the last two, are designed to support the private sector in its infancy, when it cannot provide the services itself due to lack of resources, information, and know-how (Eun Mee Kim, 1997: 32).

According to Kim, in contrast to the comprehensive developmental state, a limited developmental state can perform these three functions but in a limited degrees.

Conceptualising the government-business relationship in East Asia as 'governed interdependence' and opposing an 'authoritarianism thesis' of the developmental state by defining state power as 'infrastructural' rather than 'coercive', Linda Weiss (1997) says that even under the pressure of globalisation which is popularly assumed to have weakened the nation-state's capacity for intervening in the economy, state capacity as an institutional complex is still important for competitiveness. In her article '*Globalization and the Myth of the Powerless State*', she says, 'in the light of the East Asian experience, it appears that state capacity for industrial transformation is alive and well, at least in those countries where post-war development has occurred under the aegis of so-called developmental states'. This implies that in spite of a more integrated world economy, the high-performance industrial economies (Japan, Korea, Taiwan, Singapore) are now in a relatively strong position—especially compared with the uncoordinated market economies of Anglo-America—to mobilise the savings and investment required to sustain growth and higher value-added job creation (Weiss, 1997: 23)

Vivek Chibber (2002) is of the opinion that a proper bureaucracy secures state cohesiveness, which is necessary for building institutional capacity of the developmental state. States can foster development if their functionaries' goals are shaped by the duties of their station, rather than by calculus of personal gain. In his comparative study of India and Korea has developed a detailed explanation of 'intra-bureaucracy dynamics', suggesting an irony that bureaucratic mechanisms based on the logic of 'rationality' can weaken the 'state capacity of cohesiveness' as it happened in the Indian case, which is in contrast to the developmental state in Korea. In order to promote development, states need to be able to act as corporate entities with broadly collective goals, rather than as sum of the individual strategies of their functionaries. So one way to make states "developmental" is to enhance their capacity, and the means to do that is through securing their internal cohesiveness (Chibber, 2002: 952).

Atul Kohli (2004) in his comparative study of state as an economic actor in four developing countries: South Korea, Brazil, India, and Nigeria says that the states in these countries varied from cohesive capitalist (mainly in Korea but also in Brazil) to fragmented-multiclass (mainly in India but also in Brazil) to neo-patrimonial (mainly in Nigeria). He argues that cohesive-capitalist states have been most effective at promoting industrialisation and neo-patrimonial states the least. The performance of fragmented-multiclass states falls somewhere in the middle.

2.2 CHARACTERISTIC FEATURES OF THE DEVELOPMENTAL STATE

East Asian states became analogous to the development state with their miraculous economic growth in the post World War II period. The 'flying geese model'[7], which was Japan-led, had certain common characteristics which need to be substantiated in order to fully understand the developmental state paradigm. In the post-World War II era western academia was obsessed with differentiating between capitalist and the socialist model, overlooking the fact that within capitalist model Japan and other East Asian states were pursuing a different model of capitalist development, which in the words of Chalmers Johnson was a 'plan-rational' economic development.

[7] The 'flying geese model' represents a model of economic development based on the regional division of labour and hierarchy where the production of commoditised goods would continuously move from the more advanced countries to the less advanced ones in the region. In the East Asian case Japan was the leading goose, the second-tier of nations consisted of the New Industrialising Economies (Korea, Taiwan, Singapore and Hong Kong). After these two groups come the main ASEAN countries: Philippines, Indonesia, Thailand and Malaysia. Finally the least developed major nations in the region: China, Vietnam etc. make up the rear guard in the formation.

2.3.1 AUTONOMOUS STATE APPARATUS

The autonomy of the state is an essential feature of developmental state. A state which is not constrained by any social class and prohibits any interest group to penetrate into the decision making enjoys autonomy in the context of policy formulations and implementation. The Meiji restoration in Japan (1868) or the Park regime in Korea (1961) eliminated the interest groups, paving the way for the formation of a 'hard state'. With regards to the 'embedded autonomy' of the developmental state, Peter Evans says,

> Traditional agrarian elites were decimated, industrial groups were disorganized and undercapitalized, and foreign capital was channeled through the state apparatus. Thus, what were, in terms of domestic dynamics, largely exogenous events qualitatively enhanced the autonomy of the state. The combination of historically accumulated bureaucratic capacity and conjuncturally generated autonomy put these state apparatuses in a very exceptional position...Their exceptional autonomy allowed the state to dominate (at least initially) the formation of the ties that bound capital and the state together. The conjuncture as a whole made possible the embedded autonomy that characterized these states during the most impressive periods of their industrial growth. Embedded autonomy depends on the existence of a project shared by a highly developed bureaucratic apparatus with interventive capacity built on historical experience and a relatively organized set of private actors who can provide useful intelligence and a possibility of decentralized implementation (Evans, 1989: 575).

The historical weakness of the Korean state and its subordination to the Sino-centric world order was over turned with the Japanese colonisation of the Korean peninsula (1910-45), this structural shift in the geo-political set up in East Asia, fundamentally altered the power configuration in this region. A 'hard' colonial state that replaced the 'predatory' Yi Chosan dynasty (1392-1910) in Korea prepared the background to the later rise of the developmental state. As late developers, the Japanese made extensive use of state power for their own economic development, and they used the same power to pry open and reform Korea in a relatively short period. (Kohli, 1994: 1270). Later the formation of a strong state under Park Chung Hee in 1961 was pivotal to the Korean miracle. The autonomous state could take shape because of the virtual eradication of interest groups. The landed nobility had been destroyed; the peasantry was less rebellious as a result of land reform; and the "captains of the industry" were beholden to the state for their regeneration (Amsden, 1989: 52).

2.3.2 AUTHORITARIANISM

The dialectical relationship between democracy and development has been long debated. While most of the democracies have failed to eliminate poverty, East Asian authoritarian regimes have produced magnificent results (Varsney, 2000). This is not to undermine the democratic ethos or to eulogize authoritarianism but the fact remains that certain kinds of bureaucratic authoritarianism have produced desired outcomes. The authoritarian regimes have been more successful in mobilising the resources, disciplining the working class and the corporate sector. Whether authoritarianism is an essential characteristic of the developmental state, to this Chalmers Johnson says,

> My position on this controversy is to deny any necessary connection between authoritarianism and the developmental state but to acknowledge that authoritarianism can sometimes inadvertently solve the main political problem of economic development using market forces—namely, how to mobilize the overwhelming majority of the population to work and to sacrifice for developmental projects. An authoritarian government can achieve this mobilization artificially and temporarily, but it is also likely to misuse such mobilization, thereby making it harder to achieve in the future. In the true developmental state, on the other hand, the bureaucratic rulers posses a particular kind of legitimacy that allows them to be more experimental and undoctrinaire than in the typical authoritarian regime (Johnson, 1999: 52).

Some scholars also relate authoritarianism to the cultural context, like Lee Kuan Yew, the first President of Singapore talks of 'Asian values'. Lee has defended authoritarian arrangements on the ground of their alleged effectiveness in promoting economic success. However this analysis remains marginalised for the demand of significant empirical evidences.

> "Lee hypothesis" is based on very selective and limited information, rather than on any general statistical testing over the wide-ranging data that are available. We cannot really take the high economic growth of China or South Korea in Asia as "proof positive" that authoritarianism does better in promoting economic growth--any more than we can draw the opposite conclusion on the basis of the fact that Botswana, the fastest-growing African country (and one of the fastest growing countries in the world), has been a oasis of democracy in that unhappy continent. Much depends on the precise circumstances (Sen 1997: 1).

Authoritarian regimes in East Asian states also got support from the U.S. during the Cold War period. However, democratic movements in these countries fiercely contested the authoritarian regimes, so linking authoritarianism to the cultural values shall be inappropriate.

2.3.3 STATE –DIRECTED DEVELOPMENT AND FINANCIAL REPRESSION

The plan-rational capitalist development was state-led. In the context of late-industrialisation, state took upon itself the responsibility to 'catch-up' to the West. This differentiated the developmental states to that of the other capitalist states, where it was market-led. The relationship between the state and business was central to the developmental state model. The key developmental state instruments are designed around the principle that existing price relativities and other market signals should be deliberately distorted, through selective tariffs, subsidies and access to finance, in order to induce a step-change in the pace and direction of capital accumulation (Radice, 2008: 1154).

> Countries with low productivity require low interest rates to stimulate investment, and high interest rates to induce people to save. They need undervalued exchange rates to boost exports, and overvalued exchange rates to minimise the cost of foreign debt repayment and imports-not just imports of raw materials, which rich and poor countries alike require, but also of intermediate and capital goods, which poor countries alone are unable to produce. They must protect their new industries from foreign competition, but they require free trade to meet their import needs. They crave stability to grow, to keep their capital at home, to direct their investment toward long-term ventures. Yet the prerequisite of stability is growth (Amsden, 1989: 13).

The developmental states intervened extensively and distorted the price mechanism, in the words of Amsden (1989), 'getting relative prices deliberately wrong' was the mechanism employed for high growth political economy. The control over finance and financial repression for the allocation to the targeted industries were important tools for rapid economic growth. The production targets were fixed by the state and made corporate sector to follow the guidelines through incentives and disincentives.

2.3.4 BUREAUCRATIC APPARATUS

Another important feature of the development state was the strong bureaucratic apparatus. The developmental state recruited highly skilled personnel to staff its bureaucracy, established a pilot agency that used a variety of policy tools to guide the process of economic development, and maintained a close and cooperative relationship with the private-sector firms charged with implementing its goals (Cherry, 2005: 330). According to Vivek Chibber,

> A proper bureaucracy secures state cohesiveness; the argument goes, through two mechanisms. First, it generates norms comportment for state functionaries and, in doing so, channels their actions away from individualistic and predatory practices. This it does by putting into place abstract and clearly specified rules and ensuring that functionaries' decisions are guided by such rules, rather than their own private interests. The commitment to rule-following is compounded by a second mechanism crucial for state cohesiveness, namely, the adherence to clearly specified norms of recruitment and career mobility (Chibber, 2002: 955).

All the developmental states had huge bureaucratic set up to formulate and implement the policies. The role of MITI (Ministry of International Trade and Industry) in Japan or EPB (Economic Planning Board) in Korea is important to understand the East Asian economic miracle.

However, it needs to be clarified that there was not a single model of developmental state, as all the developmental regimes varied. But in broader terms there were some distinct features that distinguished developmental states from other states. As according to Linda Weiss, developmental states of the kind found in Northeast Asia during their high-growth period could be distinguished by at least three criteria:

1) their *priorities* (aimed at enhancing the productive powers of the nation, raising the investible surplus, and ultimately closing the technology gap between themselves and the industrialized countries);
2) their *organizational arrangements* (embodying a relatively insulated pilot agency in charge of that transformative project, which in turn presupposes both an elite bureaucracy staffed by the best managerial talent available, who are highly committed to the organization's objectives, and a supportive political system); and
3) their *institutional links with organized economic actors* (privileging cooperative rather than arm's-length relations, and sectors or industry associations rather than individual firms) as the locus of policy input, negotiation and implementation (Weiss, 2000: 23).

It is noteworthy that as the 1980s wore on, however, all the East Asian nations, including Korea, started to behave less like developmental states, becoming less interventionist, selling state assets and loosening trade and investment controls (Minns 2001: 1026). It is also quite significant that the extremely high level of state intervention that characterised Korea, Japan, Taiwan and Singapore was not repeated in most other developing countries. The developmental states emerged in a particular framework of Cold War, which no more exists. The democratic consolidation in the erstwhile authoritarian regimes in 1980s and 1990s, which Samuel Huntington considers as 'third wave', has made state apparatus more susceptible to the social pressures. The rising interconnectedness of the global economy, changing global division of labour has made mercantilist strategies or economic nationalism unviable. The neoliberal restructuring under the aegis of Bretton Wood institutions and 'Washington consensus' is leading to the strategic shift in the global political economy. The ever-increasing costs of Research and Development (R&D) in the frontier technologies that are required to remain competitive in the global market depends on access to the international finance and global technology networks. Under these circumstances the state-guided economic development strategy has come under intense pressure. The viability of the 'developmental state' in the wake of economic globalisation and convergence of the world economy to 'Anglo-American' model is of theoretical debate[8].

[8] Global financial crisis of 2008 has raised questions before the invincibility of "Washington consensus" and its policy prescriptions. Thus, the idea of developmental state and the theoretical arguments supporting that got an extended life.

CHAPTER 3

CHAPTER 3: EVOLUTION AND CHANGE IN THE KOREAN 'DEVELOPMENTAL STATE'

The 'development state' in Korea originated under the leadership of military general Park Chung Hee in 1961. He was a product of Japanese colonial army, trained in Japanese military academy in Manchuria. Chong-Sik Lee, one of the leading Korean scholars in the United States, describes him as a "Japanophile", fascinated by the "Meiji model", and bent on steering Korea along the Japanese path to modernity (Kohli, 1994: 1286). Taking advantage of the anarchical situation prevailing in the country, Park presided over the military coup in May 1961. Soon after the coup Park consolidated unprecedented powers and claimed legitimacy by directing national resources towards raising economic growth of the country. The following thirty years until the assassination of Park in 1979 was the Golden Period of Korean economic development. Under pressure from the Kennedy administration in the United States, Park finally relented and agreed to restore civilian rule. He narrowly won the 1963 election as the candidate of the newly created Democratic Republican Party over Yun Bo-seon, candidate of the Civil Rule Party. Park compared the Korean "revolution" under his leadership in 1963 to the Meiji reform, the modernisation of China under Sun Yat-Sen, Kemal Pasha's development of Turkey, and Nasser's revolution in Egypt. (Amsden, 1989: 51).

The emergence of a strong state under Park had its origin in the historical trajectory, as the Japanese colonial rule (1910-45), the land reforms[9] and later Korean War (1950-53) had abolished the indigenous bourgeoisie. The traditional *Yangban*, the agrarian and bureaucratic elites were decimated and the industrial working class was disorganised. The communists had fled to the North and the capitalist class was weak. The power vacuum created by the dismantling of Japanese colonialism in 1945 shaped the rise of an autonomous state in Korea. In other words, the state was able to consolidate its power in the 1960s because of the weakness of social classes. The military rule under Park faced minimum challenges except for some sporadic movements led by students and labour

[9] Land reforms in Korea were conducted during Japanese colonial rule and later under the US occupation (1945-48). The peasant and worker upsurge in 1945 and 1946 pushed the U.S. occupation authorities towards serious land reforms designed to head off future peasant rebellion. The peasants were demanding for the Soviet type of reforms as it happened in North Korea.

unions. This enabled the Korean state under Park to mobilise resources for industrialisation and to focus them on its planning objectives. What made the Park era different from that of his predecessor was not just Park's more determined passion for development but the fact that Park adroitly restructured the state itself to excise the institutional blocks to effective policy and, further, went about changing the state's relation to capital (Chibber, 1999: 315).

3.1 THE RISE OF THE 'DEVELOPMENTAL STATE' IN KOREA: HISTORICAL CONTEXT

The historical background to the rise of the 'developmental state' in Korea is contested between the nationalist and the revisionist historians. Recently some scholars like Atul Kohli, Dennis McNamara, etc have come up with views that attribute the rise of developmental state in Korea to its Japanese colonial past. What so-ever may be the fact, but Japanese colonisation definitely laid certain basic industrial infrastructures and state machinery which were later employed by the Korean developmental state to bring about economic miracle. The involuntary "modernisation" of Korea by Japan, although subject to exaggeration, has possibly given Korea an edge over other backward countries in terms of physical infrastructure in basic industry (Amsden, 1989: 142).

The opening of Korean peninsula by Japan in the late nineteenth century particularly after the treaty of Ganghwa (1876) brought out the 'Hermit Kingdom' from centuries of isolation and subordination to the Chinese hegemony[10]. Japan employed gunboat diplomacy to pressurise Korea to sign the Treaty of Ganghwa, an unequal treaty, which opened three Korean ports to Japanese trade and granted extraterritorial rights to the Japanese citizens. The Yi-chosan dynasty (1392-1910) had become weak and fragile because of internal feuds and rivalries between the monarchy and the powerful *Yangban* elites. Taking advantage of the anarchical situation foreign powers had started penetrating into the Korean peninsula but Japan had been much more committed and focused to absorb Korea under its fold to fulfill its historic mission of spreading into the continental

[10] The East Asia witnessed Sino-centric world order during the historical times which was based on the Confucian notion of hierarchy. Korea paid tributes and was subordinated to the 'middle kingdom'.

Asia[11]. The rise of imperial Japan in the late 19th century following Meiji restoration of 1868 challenged the Sino-centric world order and made structural shift in the power dynamics in this region. The historical ambition of Japan to annex Korea was finally fulfilled with the defeat of imperial China in Sino-Japan War (1894-95) and later defeat of imperial Russia in Russia-Japan War (1904-05). The signing of Shimonoseki treaty on April 17, 1895 between Qing China and Empire of Japan recognised the "full independence and autonomy" of Korea from Chinese suzerainty. Under the Treaty of Portsmouth, signed in September 1905 between Japan and Russia, Russia acknowledged Japan's "paramount political, military, and economic interest" in Korea. This opened Korea to Japanese interferences and paved the way for Japan to make Korea its full fledged colony in August 1910 that brought five centuries old Yi-chosan dynasty to an abrupt end.

During its formative years of colonisation, Japanese colonial authorities in Korea made large scale land survey. The entire available land in the Korean peninsula was divided according to usage and was recorded. The colonial rulers focused their efforts on land improvement, especially on irrigation, drainage and reclamation of arable land. These Japanese efforts were to make Korea the rice bowl for burgeoning industrial population in Japan, the rice cultivation in Korea rose many fold under the guidance of colonial state and application of modern techniques. Korea exported rice to Japan to feed its industrial population but in return Koreans suffered as they had to live on meager subsistence.

In order to meet its own colonial ambitions, Japanese colonial state raised modern, highly efficient and penetrative bureaucratic apparatus that replaced the Yi-chosan era corrupt *Yangban* officialdom. The police system created during colonial period contributed the colonial state in many ways. The powers granted to the police included control over politics, education, religion, morals, health and public welfare, and tax collection.

---

[11] Japanese made two major attempts to annex Korea in between 1592 to 1598, under Toyotomi Hideyoshi, the invasions are also known as Hideyoshi's invasions of Korea or Seven years war. The national hero Yi Sun Shin bravely fought Japanese forces with his innovative 'turtle ships'. Korea was considered as a bridge to continental Asia and it had been often remarked by the Japanese leaders that Korea peninsula was "a dagger pointing at Japan's heart."Being a weak state and strategically located, Korea had been at the center of regional rivalries which continues to this day.

> While senior police officers were normally Japanese, over half the police force was made up of Koreans, often lower class Koreans. These Koreans were trained by the Japanese in police academics, especially established within Korea for the purpose. Records indicate that for every Korean police position there were 10-20 applicants, suggesting a level of cooperation between Koreans and Japanese that probably pains the modern Korean nationalist sentiments. (Kohli, 1994: 1274).

The colonial state achieved considerable downward penetration, both the civil and the police bureaucracies reached into every part of the Korean society; this fundamentally restructured the state-society relationship. The collaborators of the colonial state were satisfactorily rewarded. Though the colonial state did not encourage industries during the early phase so as to protect Japanese exports to Korea but since 1930s aggressive industrialisation occurred. This was in part a result of Japan's strategy to cope up with the depression—i.e. to create a protected, high growth economy on empire-wide scale—and in part a result of Japan's aggressive industrialisation, again on an empire-wide scale, that reflected national power considerations (Kohli, 1994: 1276). Regarding the industrialisation drive by Japan in its colonies including Korean peninsula, Bruce Cumings says that,

> Japan is the only colonial power to have located industries—steel, chemicals, hydro-electric power—in its colonies, a remarkable fact when considered comparatively. They were built during the second grand phase of Japanese industrialization and probably accounted for about a quarter of Japan's industrial base by 1945. Even today China's industry remains skewed towards the north east, and since 1945 North Korea has always been most industrialized socialist state in Asia, imparting an urban and industrial aspect to Korean socialism that account for many years of differences between it and more rural socialist China. (Bruce Cumings, 1984: 487).

The colonial state kept a tight control on the colony's financial structure. The Chosan industrial bank, which helped finance new investments and, and which had controlling interests in a number of diverse industries, was controlled by the Governor General (Kohli, 1994: 1281). During the developmental era in Korea the state had been relatively autonomous because it controlled foreign capital inflows and allocated finance to the private sector. This autonomy, rapid industrialisation, credit-based growth, and the government-*chaebol* relation, or what Woo calls "Korea, Inc.," reveals a legacy of state corporatism so that "the Korean state of the 1970s ....[was] consanguineous with the earlier corporatist state" or Korea when it was a Japanese colony (Meredith Woo Cummings, 1991: 39).[12]

Nevertheless the colonial lineage of Korea's developmental state cannot be overstated as it would undermine the agency of the Korean leaders and hard working Korean masses that brought about the desirable changes in the Korean political economy and hence 'Miracle on Han River'. The industrial infrastructures created by Japan was of not much significance after the partition of the peninsula along the 38th parallel, as much of the industrial base was located in the northern half of the Korean peninsula and whatsoever was left in the southern half was devastated during the Korean War. Similarly, the upper strata of the colonial bureaucratic apparatus comprised of mainly the Japanese officials who left the country after liberation.

> Except for some low-level officials, only a weak connection existed between the pre- and post-liberation bureaucratic apparatus. Korean capitalists, managers and technology control personnel had only superficial knowledge. More importantly, the "colonial origin" advocates did not ask what the military clique, including General Park Chung-hee, had learned in Manchuria, rather than on the Korean peninsula. They skip over the 1950s and keep silent about why these colonial "remanants" only appeared under Park regime after a lapse of fifteen years (Cheon, 2006: 55).

After the partition of the Korean peninsula and devastating Korean War, the economy of the country was in a miserable situation, with massive poverty, low growth rates which was comparable to the poorest countries in the world. Despite these initial conditions Koreans created an economic miracle which was really praised and admired all over the world.

3.2 THE KOREAN DEVELOPMENTAL STATE

The 'hard state' under Park successfully guided Korea towards an export led economic growth model. One of the first acts of the military junta was the creation of Economic

[12] Due to non availability of the original book, I have quoted from the book review of 'Race to the Swift: State and Finance in Korean Industrialization' by Jung-En Woo. New York: Columbia University Press (An East Asian Institute study), 1991, by P.W. Kuznets, Indiana University, Bloomington, published in Journal of Korean studies, p 229.

Planning Board (EPB) in July 1961 by combining the Bureau of Statistics of the Ministry of Home Affairs, the planning office of the Ministry of Reconstruction, and the Bureau of the Budget of the Ministry of Finance (Hwang, 1996: 308). This board was bestowed with enormous powers. The chairman of the planning board was awarded the rank of deputy Prime Minister, the position which was only second to that of the President in the government hierarchy. In the same year Korea Central Intelligence Agency (KCIA) was formed to prevent any countercoup and to suppress all potential enemies, domestic and international. Five months after the coup the Park government nationalised the banking system and by 1970 it controlled 96.4% of the country's financial assets. Park's interventionist policy involved: (1) private ownership of industry; (2) state control of finance; (3) state planning; and (4) maintenance of a low-wage economy during expansion. (Minns, 2001: 1027-31).

The obsession of the Korean leaders, particularly Park towards export-led economy was based on the pragmatic strategy, as Korea being a small country, lacking most of the basic resources had to depend on the external sources for raw materials, finance, technologies and markets. If Korea had depended on the domestic market and had continued to pursue its earlier import substitution industrialisation (ISI) strategy, the country would not have been able to gain high economic growth rates. As a case of late-late industrialisation, Korea had comparative advantage in terms of high skilled, cheap labour. The state made sincere efforts to push Korea towards rapid industrialisation through the promotion of private capital. The control of finance was another major feature of this regime. Unlike other capitalist states, Korean state kept the finance tightly under its control. The state borrowed heavily from the international financial institutions on sovereign guarantee, repressed finance and supplied credit to the corporate sector. Financial repression was the key instrument as the domestic banks could borrow funds in the foreign markets but responsibility for their allocation rested with the EPB. The grant of capital and other subsidies were strictly based on terms and conditions[13].

[13] The state in Korea adopted 'carrot and stick policy' towards the corporate sector; the incentives were based on performance in the export led economy. Non performers were allowed to go bankrupt as in case of Kukje group in 1985.

Apart from these aspects the state maintained close relations with the business groups, President Park himself chaired the meetings with the business groups and the grievances were immediately addressed. With the president presiding, the meetings provided an arena in which leading members gathered to generate the comprehensive export-promotion policies that shaped the export drive characterising this period in Korean history (Hwang, 1996: 309). The Park regime also ensured to make a balance between rural and urban development through *saemaul undong* or new village community movement. During 1970s, alarmed by US-China rapprochement and first oil crisis, Korean state under Park gave emphasis on heavy and chemical industries (HCI), called *yushin* program, in order to reduce dependence on United States. HCI drive concentrated largely on defence-related productions such as steel and petrochemicals, nonferrous metals, electronics and shipbuilding. Throughout these years Korea experienced growth rates in double digits. What made Korea unique in some sense was the presence of 'developmental determination' amongst its leaders. The rise of the state guided capitalist development in Korea falsified both the free market doctrines and state socialism.

Also, international political economy effectively constrained by the Cold War structures contributed in the success of the developmental state in Korea, particularly its export-promotion industrialisation strategy. Developmental state in Korea compromised external autonomy but gained autonomy in the domestic policy making.

3.3 THE PILLARS OF THE DEVELOPMENTAL STATE IN KOREA

3.3.1 **Autonomous state structure:** The rise of a 'hard state' under military General Park established an autonomous state which was not constrained by any particular class interest. The historical context in which the developmental state in Korea emerged was unique, which facilitated the creation of an insulated bureaucratic structure. Workers were a small percentage of the population, capitalists were dependent on state largesse, the aristocracy was dissolved by land reform, and the peasantry was atomised into small holders. (Amsden, 1989: 52). In the absence of indigenous bourgeoisie, the Korean state took the responsibility of the developmental process. The Third Republic, launched with the military coup d'état of May 16, 1961, sought to base political legitimacy in economic efficiency and undertook economic restructuring and social reorganisation within the framework of guided capitalism to maximise capital accumulation (Lim and Paek, 1987: 24).

3.3.2 **Economic bureaucracy:** The bureaucratic apparatus in Korea played an important role in the formulation and implementation of the policies. Economic Planning Board (EPB) was established in 1961 and became the nerve center of the economic reconstruction of Korea under Park Chung Hee. The head of the board was given the rank of deputy prime minister and was staffed by bureaucrats and technocrats of high intellectual and educational backgrounds. In the initial period, EPB was dominated by foreign advisors, who were later replaced by foreign-trained Korean technocrats. The authority of the planning board was enormous. The EPB was not only the fount of the formation of industrial policy; it also enjoyed supreme control over annual budgetary process and the allocation of the credit (Chibber, 2002: 975). During HCI drive the power shifted from EPB to the Ministry of Commerce and Industry (MCI). After democratic consolidation and globalisation initiatives under Kim Young Sam, EPB was dismantled and merged with Ministry of Finance and Economy (MOFE) in 1994. After the 1997 financial crisis period, President Kim Dae-Jung established a new agency, the Ministry of Planning and Budget (MPB), in order to strengthen his reform initiative in the post-crisis Korea.

3.3.3 **State-business relationship:** The unique feature of a capitalist developmental state is the closer collaboration between the state and the corporate sector. The alliance between the state-bank-*chaebol* was the main institutional framework of the developmental state in Korea. This nexus has often been condemned as 'crony capitalism'. Since the mid 1980s the *chaebols* grew stronger and more powerful and undermined the "embedded autonomy" between state and big business. Considering the relations between Korean state and business community in terms of predatory and rent seeking behavior as that of mutual hostage situation, David Kang says that:

> Money politics remained constrained because Korean elites existed in a mutual hostage situation where neither political elites nor economic elites could take excessive advantage of the other. This balance of power allowed them to pursue corrupt activities, but it also limited the chances for excessive advantage. Government intervention was subject to political influence in a number of ways

> that reduced both rent-seeking by entrepreneurs and transaction costs for the politicians and bureaucrats involved in monitoring the policy process. While the "strong state" has been the focus of much of the literature, the surprising strength of the business sector has received less attention. State control over the financial sector had enormous consequences for the organization and conduct of business in Korea. Since Korean companies were highly leveraged, they were vulnerable to the state control. Paradoxically, this weakness became a source of strength in relation to the state (Kang, 2002: 191).

The state gave full leverage to the corporate groups, particularly the big ones at the cost of small and medium enterprises. The term *jungkyung yuchack* is used with a distinctively negative connotation for this type of relationship (Lee and Han, 2006: 309). Regime power holders allowed only wealthy, powerful, and politically connected interest groups like *chaebol* and its primary lobby organisation, the Federation of Korean Industries (FKI), a chance to influence policy behind the closed doors (Park, 2002: 67).

3.3.4 **Control and repression of finance:** The control and repression of finance was one of the most important features of the Korean developmental state. Park nationalised the banks soon after coming to power. The corporate sector was not allowed to borrow on their own from the international financial institutions, instead the state borrowed heavily from the foreign sources giving sovereign guarantees. In Korea, this system was intentionally constructed by the Park government in the 1960s and strengthened in the 1970s to support its economic development plan. It took various measures to control all financial resources and allocate them to priority sector through nationalisation of commercial banks, control over the central bank, establishment of special financial institutions and control over foreign capital. In 1961, most of the equity capital of commercial banks, formerly owned by a few industrialists, was transferred to the government, and it controlled the management of them.

> To fund rapid industrialisation, the Park government passed the Law Guaranteeing Repayment for Loans in July 1962. Loans were to be approved by the Minister of Finance as well as the Governors of the Bank of Korea and the Korea Reconstruction Bank. Both principle and interest on foreign loans would then be government-guaranteed. As a result the inflow of foreign loans to the *chaebol* accelerated, accounting for up to 36.6% of gross investment by the early 1970s. As long as these arrangements stayed in place, increased capital inflow

> could only take place via the South Korean state. It had established itself as the conduit between domestic and international capital. (Minns, 2000: 1027).

While the repressed finance was channeled to the selective big conglomerates, the smaller business groups were starved of the financial support. The Korean model of economic development followed 'high-debt, high-growth' strategy which was in contrast to the Taiwanese model which followed 'low-debt, high-growth' model and promoted small sector enterprises.

3.3.5 **Export-led growth strategy:** The Korean developmental state under Park Chung Hee adopted trade as the engine of growth and promoted export-led growth strategy. With its strong drive for the export-oriented industrialisation, the government exclusively directed economic resources and special benefits to strategically opted big business that later evolved into the *chaebol* or family controlled groups of companies in many unrelated industries (Jung, 1999: 31). The corporate groups were given the targets and the supply of the credit and other incentives depended on the performance based on the export of goods. This shift towards Export Led Industrialistion (ELI) in Korea from import substitution strategy was unique in the developing world of that period. Regarding ELI strategy as the major pillar of the developmental state in Korea, Vivek Chibber argues that,

> It was the state that launched ELI in alliance with domestic business, not over it. Further, it was the peculiar nature of ELI that gave the state the leverage and space to exercise its disciplinary functions. In other words, pace the statists, it was not that the Koreans first built a developmental state, which then herded local capitalists onto the new accumulation strategy. The causal arrow in fact ran the other way – it was the launching of ELI that provided the basis for building a developmental state (Chibber, 1999: 312).

It also needs to be mentioned that export promotion strategy in Korea could take off because of the Cold War political context. U.S. and other Western countries opened their market for their allies in the East Asia.

3.4 CHANGES IN THE DEVELOPMENTAL STATE IN KOREA SINCE 1980s

Much before the 1997 financial crisis, the developmental state in Korea had started dismantling the set of interventionist policies since the decade of 1980s. These changes basically created the background for the full fledged transformation of the developmental state. As to why these changes were brought about, no single factor could be attributed. The pressures from both domestic and global were making the working of the developmental state difficult. Starting with mild economic liberalisation in 1980s under second military regime, to more profound globalisation of economy (*segyehwa*), financial liberalisation and dismantling of EPB[14] under the first truly democratic regime in 1990s, Korean state had already made significant changes before the final assault came in the form of the financial crisis in 1997. On the domestic front democratic consolidation against the authoritarian regime, corrupt state-*chaebol* nexus and rising regional disparities were challenging developmental state policies. The authoritarian regime in Korea came under intense pressure particularly after the Gwangju incident of 1980. In the context of international politico-economic dynamics, end of Cold War, economic globalisation, changes in the global division of labour, rise of knowledge economy had made policies of the developmental state largely defunct. Furthermore, changes in the economic thinking about the economic development, which moved away from 'Keynesian consensus' to Monetarist idea, contributed in the realignment of the developmental state. In fact, Korea was not the sole case; the other developmental economies were also making visible changes.

Following are the variables/factors that led to the transformation of the Korean developmental state:

3.4.1 DOMESTIC FACTORS

i) **Democratic uprising and consolidation**: Despite having made marvelous economic progress the developmental regime in Korea was condemned for being authoritarian and repressive. The movements for democratisation against authoritarian regime and state-business oligarchy started taking shape in the 1970s. Park Chung Hee was seriously challenged by the opposition candidate, Kim Dae Jung in the 1971 presidential election. However Park won by a narrow margin. The rising tide against the authoritarian regime got manifested in various civil society movements and labour unrest. By the late 1970s,

[14] The EPB was dismantled in 1994 and was merged with Ministry of Finance, creating a mega economic bureaucracy named Ministry Of Finance and Economics (MOFE).

the movements got much more frequent and violent. The assassination of Park Chung Hee by the chief of KCIA in October 1979 brought an end to the Park era. In 1980 another coup by Chun doo Hwan triggered massive unrest in the Jeolla-do province, the home state of Kim Dae Jung, particularly in its capital Gwangju, where it was brutally suppressed. When state tried to liberalise economy in 1980s , as anticipated by ruling regime that successful economic reforms would mitigate the negative legacies and eventually bring political pay offs; contrary to expectations, it delegitimised the Chun regime and precipitated the process of democratic opening (Moon and Kim, 1996: 148).

The 'catch-up' in Korea was based on effectively mobilising its cheap labour, long working hours and low wages were giving rise to the labour unrest and by the late 1970s labour movements had become frequent. Regarding labour movements as the most important reasons to the demise of developmental state in Korea, John Minns says,

> The most important reason why the South Korean state was no longer able to carry out its plans for industrial development with anything like the old certainty or focus was its inability to control the burgeoning working-class movement. The sheer pace of industrialisation created wage workers so fast that they overwhelmed the very considerable mechanisms of repression. From the early 1960s South Korean industrial strategy had depended on wage levels far below those of comparable countries. Until the late 1980s the hourly rate of pay in South Korean manufacturing was 75% that of Taiwan and 80% that of Hong Kong (Minns, 2001: 1032).

In June 1987 Roh Tae-woo, an ex-military man and the then chairman of the ruling Democratic Justice Party, announced that the next president would be directly elected. Chun named Roh as the presidential candidate of the ruling Democratic Justice Party. In the following elections, the rivalry between the two Kims (Kim Young Sam and Kim Dae Jung) proved beneficial for Roh. The two political leaders' rivalry was translated into an extreme inter-regional antagonism between their respective home regions, which the military junta abused to extend their political rule (Kyung-Sup, 1999: 36). The elections resulted in the splitting of the votes which led to the victory of Roh Tae-woo. With the democratic opening of 1987 interest groups became active and civil protests increased exponentially. Workers' strikes rose from 276 incidents in 1986 to 3,749 in 1987, to 1,873 in 1988 and 1,616 in 1989. A record high current account surplus ($9.9 billion) in

1987 turned into net deficits from 1990, culminating in a deficit of $8.7 billion in 1991 (Moon and Kim, 1996: 154-155).

In the 1992 presidential election, Kim Young Sam won, which was heralded as the first truly democratic regime. He vigorously pursued *segyehwa* drive and liberalisation of finance. Once liberated from state control, the *chaebols* started borrowing in a big way from overseas financial institutions. The vast flow of short-term and speculative foreign debts proved dear, which ultimately precipitated as the financial crisis of 1997. In a nutshell, the democratic consolidation was tantamount to opening Pandora's Box as it strengthened the interest groups and social classes which were earlier kept under control. With the liberalisation of economy and democratisation of polity, the developmental state sowed the seeds of self destruction.

ii) **Rising regional disparities**: Another major challenge to the developmental state came from the rising regionalism[15] which was fueled by regional disparities. The economic development in Korea was invariably biased towards Seoul, the Yeongnam region and few other metropolitan areas at the cost of other regions. This created regional disparities and uneven economic growth in the country. Some regions like Jeolla-do, had to face the brunt of the biased attitude of the national leadership. Between 1958 and 1983, Jeolla's share of manufacturing employment decreased from 13.1% to 5.4 %, while that of Kyongsang increased from 28.6% to 41.0% (Hwang, 1996: 318).

> The Park regime was a highly-privileged, highly concentrated system in which two extremes existed—on one side were the insiders made up of dictatorial power, privileged *chaebol*, and the Seoul metropolitan area, and on the other were the outsiders made up of laborers, SMEs, and provincial areas outside of the Seoul. The people as outsiders could not fully consent to mobilization of the "growth first, distribution later" system that poured all national, material, and human resources into the mold of the "*chaebol*-and-Seoul-only" policy. Second, Park's growth-priority policy created a bubble economy, characterized by crazed real estate speculation and an ecologically damaging construction boom unlike

[15] The regionalism in Korea has its origin in its long historical past. The present day Jeolla region was part of Baekje kingdom (18 BC-660 AD) which had made an alliance with ancient Japan against other Korean kingdoms. On the other hand the present day Gyeongsang area was part of Shilla kingdom. The Baekje kingdom was defeated by the Silla forces in collaboration with Tang kingdom of China in 660 AD; this created historical animosity between the two regions and generates regional fervors to this day. The origin of regionalism based on historical factors is unique and paradoxical to Korea where Koreans believe of themselves as a single community.

> anything found in other East Asian countries that experienced similarly rapid growth. (Cheon, 2006: 66-67).

The sense of alienation was further fueled by the high handedness and brutal repression of the Gwangju demonstration against military regime in 1980. Troops were sent and in the resulting massacre of 18 May 1980, the government claimed that 200 citizens were killed where as the opposition said that up to 2000 died. (Minns, 2001: 1033). The massacres delegitimised the military regime and the demands for democratisation got accentuated which spread to the other parts of the country.

iii) **Corrupt state-business nexus**: The corrupt coalition between the state in Korea and the *chaebols* had often been condemned. There had been demands for restructuring the *chaebols* from the masses. This relation was looked upon as the harbinger of the authoritarian rule in Korea. The state had selectively promoted these big business groups through industrial and financial policies. In return for this protection and favourable regulation, business firms provided political fund, personal favours and sometimes downright bribes (Jung, 1999: 38). The demands for neoliberal restructuring were also coming from the *chaebols* in their zeal for global expansion. Though business groups in Korea was subordinated to the state but in the later period the *chaebols* became more powerful vis-à-vis the state. In fact, democratisation, deregulation, and globalisation all served the interests of the *chaebols* at the expense of the state. The balance of power seemed to have permanently shifted away from the state to now powerfully independent *chaebols*, whose only challenge now was the global market (Lee and Han 2006: 311-312). With the financial liberalisation in early 1990s the *chaebols* borrowed heavily from abroad and encouraged an inflow of large amounts of speculative and short-term capital which finally led to the 1997 financial crisis in Korea.

The state-business collusion (*jeongkyung yuchak*) and the *chaebol* dominated economy were blamed as one of the major reasons that led to the financial crisis. The public legitimacy of *chaebols* was largely shattered when long time opposition leader Kim Dae Jung and his political party took power, because the *chaebols* were considered to have colluded with past authoritarian governments and conservative ruling parties for their own benefit (Lim and Jang, 2006: 445).

3.4.2 INTERNATIONAL FACTORS

i) **End of the Cold War:** The end of Cold War was an event which fundamentally changed the geopolitics of the world. For some scholars like Francis Fukuyama, it was the triumph of the West and the liberal ideology over totalitarian communist regimes. The 72 years of mutual rivalry and arms race gave way to a comparatively greater cooperation and interdependence. The end of Cold War was significant for the East Asia region, as this region was another front of bitter Cold War rivalry apart from Europe. The United States formed bilateral security arrangements with Korea and Japan under San Francisco treaty (1952)[16]. The Cold War was an important condition under which East Asian tiger economies including Korea prospered and flourished. The United States constrained by the Cold War geo politics tolerated the neo-mercantilist economic policies of its allies in this region, despite its uncomforted. Korea happened to be the frontline state in the eastern hemisphere for the containment of communism. The leadership in Korea very efficiently made use of the Cold War political economy as western allies particularly United States was the source of capital, technology and market. The end of Cold War changed the prevailing scenario as US was no more constrained. Bruce Cumings has argued that, in the post-cold war era, US patience with neo-mercantilist states such as Korea had vanished. Cumings says, "in the 1990s, the second – best world, the world of blocs, of iron and bamboo curtains, unexpectedly disappeared – and therefore, so has American indulgence for the neo-mercantilism of its East Asian allies, which was always a function of the Cold-War struggle with their opposites" (Cumings, 1998: 51). Thus with the end of Cold War, the promotion of national capital at the expense of global capital became difficult. The pursuit of economic nationalism by the developmental regimes in East Asia was no longer viable in the post-Cold War era.

ii) **Globalisation:** The end of Cold War paved the way for economic globalisation. In the theoretical perspective globalisation can be of two types: one from above and other from below. As according to Lim Hyun –chin and Jang Jin –ho,

---

[16] United States did not go for multilateral alliance with East Asian countries as it did in the case of Europe and formed NATO. For further reading see, 'Why Is There No NATO in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism', by Christopher Hemmer and Peter J. Katzenstein, Source: International Organization, Vol. 56, No. 3 (Summer, 2002), pp. 575-607, The MIT Press.

> In response to 'globalization-from-above' driven by states and transnational actors including IFIs, TNCs, or global finance, there has emerged 'globalization-from-below' to reclaim the power that the former have usurped on planetary and local scales. Globalization-from-above can be called 'neoliberal globalization' because it accelerates the integration of individual countries into a single global economy by empowering transnational 'market' players and undermining states' autonomy in domestic policy-making domains. Globalization-from-below can be considered 'civil-society globalization' that mobilizes social movements by non-governmental organizations (NGOs) across national boundaries. (Lim and Jang, 2006: 6)

The contemporary understanding of globalisation postulates neoliberal restructuring of the economy. Though Korea under the leadership of Chun doo Hwan (1980-87) had embraced economic liberalisation in the early 1980s, but it was during the regime of Kim Young Sam that globalisation of the Korean economy was pursued in a big way and neoliberal measures were adopted. The demands for the globalisation of the economy were coming from both indigenous and exogenous sources. The *dirigiste* policies of the development state were inhibiting the aspirations of corporate sector in Korea for global expansion. As global markets are integrated, domestic players also find new opportunities in foreign countries and push for outwardly focused policies (Lim, 2010: 193).

> Nevertheless, the political democratisation process that had been taking place in the 1980s favoured the *chaebols* by enabling them to pursue an ambitious globalisation project and make their presence felt. The *chaebols'* emphasis on globalisation was mainly due to their pursuit of scale economies. For the Korean firms, because their voluminous production was based on few products (mostly electronic products and cars), the requirements for capital investment and R&D spending were enormous in order to remain competitive in the global market. As technological development was becoming more expensive, the Korean economy needed to invest on a massive scale to remain competitive, and this was to a certain extent beyond what the Korean domestic market could afford (Wang, 2007: 1093).

As far as exogenous factors are concerned, the Bretton Woods institutions were pressurising Korea to open up its economy. The United States aggressively pushed forward with free market opening and deregulation, and the previous US-Korea relations, which had provided a structure of high growth opportunity, became outside pressure to open (Cheon, 2006: 68).

iii) **Changing global division of labour:** The changing global division of labour was also creating problems for the developed East Asian economies. As new centers of manufacturing and cheap wage destinations started challenging the erstwhile export led growth under state guidance of the developed Asia. The economic rise of China in this region has significantly replaced Japan and to some extent Korea as the manufacturing hubs of Asia. In fact since 1970s Japan had started outsourcing its polluting industrial units to the South East Asian countries. This new trend in the East Asian political economy has created new problems. The Korean *chaebols* had been investing heavily in China and more recently in India.

> The new regional division of labour has induced developed Asia to confront two problems at the same time: one, the emergence of new and strong competitors in the region; two, the enormous increase in the outward foreign direct investment (FDI) to developing Asia that has drawn away the capital needed to introduce structural changes required in developed Asia. The inter-relatedness of international markets highlights the importance of national labour costs and the advantages of being a low wage country. This challenge to the established regional division of labour provided the opportunities necessary to developing Asia in becoming an important part of the world economy and drove the East Asian 'flying geese' pattern into crisis (Uttam 2006: 260).

While the developing Asia is witnessing an economic boom, the developed Asia is facing economic stagnation. The boom in the developing countries of Asia is because of the availability of cheap labour and flexible Labour and environment laws. Countries like China have become the biggest destination of FDI in the recent years.

iv) **Rise of knowledge economy and increasing technological competence:** The rise of knowledge and technology based industries have made the 'imitative-reverse engineering' based state-guided industrialisation uncompetitive and unprofitable. The global knowledge economy is considered to be network-based and incompatible with the bureaucratic state intervention (Chu 2009: 281). According to Powell and Snellman, "the key components of knowledge economy include a greater reliance on intellectual capabilities than on physical inputs or natural resources, combined with efforts to integrate improvements in every stage of the production process, from the R & D lab to the factory floor to the interface with customers". These changes are reflected in the increasing relative share of the gross domestic product that is attributable to "intangible" capital (Powell and Snellman, 2004: 201).

The global knowledge economy necessitates and facilitates deeper integration to the global economy where economic nationalism and promotion of domestic capital is no longer viable. To remain competitive in the global market requires massive financial funding for innovation of new technologies. In contrast to the catch-up paradigm, the innovation-based economy aims at creating and searching for frontier technologies that do not yet exist in the market (Wang, 2007: 1088). The Korean 'high debt-high growth' model started facing crisis with the rising knowledge and techno-based global economy. The Korean *chaebol* needed access to global capital and equity market in order to fund new investments as well as tap into transnational technological networks to further develop its frontier technologies (Wang, 2007: 1093).

3.5 ASIAN FINANCIAL CRISIS (1997)

Although the Korean state had been transforming and strived to become less interventionist since the early 1980s but the real changes occurred only after 1997 financial crisis. The neoliberal policies adopted by Kim Young Sam in his efforts to build a 'New Korea with a New Economy' consequently created conditions for the *chaebols'* expansion and exacerbated their debt-to-equity ratios. Indeed, the economic globalisation project taken on by the *chaebol* generated a large demand for capital, which was later borrowed mostly from abroad. In mid-1997, Korea's short-term foreign borrowing rose to 67 per cent of all foreign debt and to as high as 300 per cent of Korea's foreign reserves and the top 10 *chaebols'* debt-to-equity ratio reached as high as 622 per cent on average just before the crisis (Wang, 2007: 1093). More than 90 percent of Korea's external debt of $ 120 billion was in the private sector and nearly two-thirds was in short term, of one year or less (Kim, 1999: 453).

The financial crisis originated in Thailand in July 1997 and quickly spread to the other parts of Asia such as Indonesia, Malaysia and finally to Korea. It was considered as one of the most severe crisis since the Great Depression (1929-1933). The financial crisis was a big jolt to the Korean developmental state and 'too big to fail' mentality of *chaebols*.

> The general consensus appears to be that, internally, the fundamental cause of the crisis is attributed to; (1) Korea's weak financial sector which had severely limited capability to access risk; and (2) an over-leveraged corporate sector with insufficient attention to profitability, both of which left the Korean economy dangerously exposed to external shocks. External factors behind the financial crisis received equal scrutiny. For instance, much has been made of the systematic short-term bias in international lending, or speculative capital, leading to calls for greater "creditor responsibility" by the IMF. (Lee and Han, 2006: 307).

The state under Kim Young Sam had to approach to the IMF for a $ 58.35 billion emergency bail-out package in the wake of plummeting currency value and rapid exhaustion of dollar reserves. The IMF bailout package (which was the largest rescue package in the history of IMF at that time) came with conditionalities of massive restructuring of the economy, particularly finance and corporate sector. The responsibility of driving Korea out of the economic mess fell on the newly elected President Kim Dae Jung. Despite the rhetoric of social democracy and mass participatory economy, Kim Dae Jung adopted orthodox measures to overcome financial crisis.

> There is an analysis indicating that Kim Dae-Jung's early version of the 'mass participatory economy' having a social-democratic tone was transformed into the neoliberal version of "DJnomics" in 1998, and that many of problems in post-1997 restructuring can be found in such a change. The Kim administration-related scholars, however, would note that DJnomics was rather German social market-styled 'order liberalism' or a Third Way version than neoliberalism, because of its welfarist elements. Retrospectively, it cannot be denied that the 'real outcomes' of DJnomics were not so much different from those of neoliberalism (Lim and Jang, 2006: 12).

As an opposition leader, Kim Dae Jung supported trade unions, the welfare system, and subsidies for small and medium-sized enterprises, but when he was in office he believed that the only way to overcome financial crisis was by promoting competition and liberalising foreign investment barriers, introducing a more flexible labour market and strengthening anti-trust laws and their enforcement (Kim, 2005: 472). The government's interference in the market and society had been strengthened ironically during the crisis management period, despite the fact that government failure in policy management was a key reason of the economic crisis (Jung, 1999: 44). The Korean state under the guidance and supervision of IMF carried out massive restructuring of the economy and made significant changes in the state apparatus.

3.6 *TRANSFORMATION OF THE KOREAN 'DEVELOPMENTAL STATE', 1997-2007*

The response of the Korean state towards the 1997 crisis was significantly different from its response to earlier economic crisis of 1972 and 1980.[17] The state demonstrated an unprecedented determination to force leading conglomerates to restructure and improve profitability, a willingness to allow major strategically important firms to fail, and has actively promoted the sale of key assets to foreign investors (Pirie, 2005: 356). The period following 1997 financial crisis witnessed large scale restructuring of the Korean developmental state. The state employed its powerful interventionist mechanisms to restructure the economy. The earlier policy of globalisation in the mid 1990s was followed by wholesale neoliberal reforms after the crisis.

3.6.1 RESTRUCTURING OF THE BANKING AND FINANCIAL SECTOR

Control of finance was the major tool of the Korean developmental state, through which state effectively controlled the corporate sector. To fund rapid industrialisation state borrowed heavily from the foreign institutions and channeled it to the corporate sector at low interest. Both principle and interest on foreign loans were government-guaranteed. This was the hallmark of the 'high debt-high growth' model and 'state-bank-industry' collaboration. The Korean state started liberalising the financial sector since early 1990s onwards; however since 1997, financial and banking sector have undergone massive restructuring.

> Overall, three sets of reforms were undertaken. The first was to identify unviable banks and other financial institutions. The second was to define clear exit strategies for those institutions. They included complete closure and takeover by viable ones. Viable institutions were also required to submit restructuring plans. The third was to establish a time table under which all Korean banks would meet the Basel capital adequacy standards as established by the Bank of International Settlements (BIS) (Lee and Han, 2006: 314).

The reform of financial sector started with the reforming of the central bank, the Bank of

[17] After the 1972 crisis, the state tightened its control over finance and more intensive industrialisation strategy through the promotion of Heavy and Chemical Industries (HCI) was undertaken. The response of the state to 1980 crisis was liberalisation of the economy and adoption of neoliberal policies. In both the cases the state attempted to improve the efficiency leaving the essential elements of the pre-existing growth regime intact.

Korea (BOK). The Bank of Korea was established on June 12, 1950 at national capital Seoul under the Bank of Korea Act. During the developmental-planning phase the bank was mere appendage to the Ministry of Finance and Economy (MOFE), this reflected the dictates of Korean system of economic planning. In the aftermath of the financial crisis, the Korean state took several measures to reform the banking sector. On December 31, 1997, the new BOK Act was passed under the guidance of IMF, this was most important act passed after the financial crisis. This act provided the central bank independence with price stability as the Bank's main mandate, and two state-owned corporations, the Korea Asset Management Corporation (KAMCO) and the Korea Deposit Insurance Corporation (KDIC), were reorganised to clean up the non-performing loans (NPL) and strengthen the capital base of banks.

> The 1997 BOK Act created, at the stroke of a pen, a highly autonomous central bank with a very clear mandate to pursue price stability and abstain from deliberately distorting the allocation of credit. A close examination of the Act reveals the full importance of the 1997 central bank reform. First, the personal autonomy of members of the Monetary Policy Committee (MPC) was greatly enhanced. The Governor of the BOK, a civil servant, replaced the Minister of Finance and Economy as head of the MPC. The now internationally standard provisions making it impossible for politicians to remove any member of the MPC who is neither mad nor criminal, are included in Article 18 of the new Act. More unusually, Chapter 2 Article 13 of the Act stipulates that three of the seven members of the committee are to be nominated by private business institutions. Two of the three private institutions, the Korea Securities Dealers Association and the Federation of Banks, represent the financial community; this has very important implications for the conduct of monetary policy (Pirie 2005: 31-32).

With the amendments in the BOK Act, Korean state under Kim Dae Jung deliberately lost the control of the finance, which was a major developmental policy instrument. The financial sector was opened to the foreign investors and many banks in Korea were sold to the foreigners. The FDI was no longer a taboo as it was during the earlier era. In its zeal to do massive restructuring of the financial sector, Kim Dae Jung administration implemented policies which remarkably departed from the past practices.

> It wholly accepted IMF macroeconomic austerity measures, which included boosting interest rates to punitively high levels and maintaining tight monetary and fiscal policies. It stepped up the opening of capital and real estate markets to foreign investments, strengthened minority share holder rights, and mandated that

> listed companies appoint outside directors to their boards. It abolished barriers to hostile mergers and acquisitions and increased labour flexibility by legalizing massive lay-offs. It shut down five commercial banks, four insurance companies, sixteen of the thirty merchant banks, and auctioned of Korea First Bank and Seoul Bank, two of the six major city banks, to America's Newbridge Capital Ltd and London-based Hong Kong and Shanghai Banking Corporation (HSBC), respectively. And in an effort to consolidate the marketization of the financial sector and free it from state intervention, the new administration created an independent Financial Supervisory Commission outside the Ministry Of Finance and Economy (MOFE) (Park, 2002: 65).

In March 1998, the Financial Supervisory Commission (FSC) was created by consolidating separate institutions for supervision and regulation of different financial industries. The FSC was given the authority to monitor and discipline financial institutions, issues licenses for the financial industry, review the appointment of bank governors and examine corporate bank accounts. In January 1999, the FSC was expanded and by merging the four agencies charged with supervising the banking, non-banking, securities and insurance sectors of the financial industry, and was re-launched as the Financial Supervisory Service (FSS) (Cherry, 2005: 342).

3.6.2 RESTRUCTURING OF THE CORPORATE SECTOR

One of the major causes of the 1997 financial crisis was attributed to the *chaebols*. These big business groups were created and nurtured by the Korean developmental state through its industrial policies and repressed finance. By the mid 1980s the power of the *chaebols* has grown considerably strong vis-à-vis the state. Democratisation, deregulation, and globalisation all appeared to serve the interests of the *chaebols* at the expense of the state (Lee and Han, 2006: 311). The elimination of EPB, uncoordinated financial opening under the conditions to gain OECD membership and *chaebols* desire to become bigger as a guarantee to receive government bailouts, led to the tilt in the balance of power in favour of *chaebols*. The state had gradually lost its control over *chaebols*. With the financial liberalisation in 1990s, *chaebols* in their reckless drive for expansion borrowed extensively from the international capital market, most of which were in short term and speculative capital. On the eve of the crisis, the top thirty *chaebol* held a commanding position in the Korean economy, accounting for 46.3 percent of total assets, 45.9 percent of total sales, 13.1 percent of total value-added and 4.2 percent of total employment. The charges leveled at the *chaebol* included excessive borrowings to finance often ill-advised and non-performing investments, non-transparent and in times misguided management, the illegal accumulation of wealth by owners, and the obstruction of reforms that, while vital to Korea's continuing growth and development, would undermine the conglomerates' domination of the economy (Cherry, 2005: 328).

Immediately after the financial crisis, the IMF instructed the Korean *chaebol's* management to increase transparency and fair trade while deliberating on the emergency relief package for Korea. IMF criticised the structure of *chaebol* like business grouping as the main cause of inefficiency and moral hazard (Kim, 2005: 474). Under the aegis of IMF, Kim Dae Jung administration took several measures to restructure *chaebols*. Infact Kim Dae Jung had strong reservations against these big conglomerates in Korea. These business groups were regarded as the collaborators of the earlier authoritarian regimes and were also blamed as the major cause to the financial crisis in Korea. Just three weeks after his elections and six weeks before his inauguration, Kim Dae Jung had a meeting with the country's top five business leaders and secured their agreement to a binding five-point undertaking. This historic compact between the *chaebol* leaders and the President-elect committed them to:

- Producing consolidated balance sheets, prepared according to international accounting standards;
- Terminating the cross-divisional payment guarantee system for raising loans;
- Requiring affiliates to perform profitably, and merging or divesting those that are not profitable;
- Promoting partnerships between *chaebols* and small and medium-sized enterprises;
- Placing their personal wealth into their companies to improve their equity base (Mathews, 1998: 755).

In terms of corporate governance reform, the Kim Dae-Jung government broke the myth of 'too big to fail': it allowed many *chaebols* to go bankrupt and requested that they restructure to focus on their core businesses (Wang, 2007: 1094). The reforms focused on disciplining *chaebols* and providing equal footing to the foreign companies. Following are the structural reforms measures imposed upon *chaebol* by the Korean government after the crisis:

Ownership & Governance structure

- Outside Director System
- Empowerment of Small Shareholders
- Abolition of Loan Guarantees in Group
- Presentation of Combined Financial
- Statements   Deregulation of M&A

Business and Financial structure

- Reduction of Debt-Equity ratio
- Emphasis on Profits and Cash Flow
- More Conservative Investment Behaviour
- Independent Management of Group Companies

Management structure

- Large-scale Downsizing/Layoffs
- Business Consolidation/Specialisation (spin-off, EBO etc)
- Alliance with Foreign Firms
- Introduction of Foreign Capital
- Introduction of Performance-based Pay
- Weakening Paternalistic Management

(Source: Jung, 1999: 41)

In the corporate sector, restructuring was essentially aimed at the *chaebols,* for which the Korean government had five major policy goals, as recommended by the IMF (Financial Supervisory Committee, 1999). Later three more policy measures were adopted, thus it was called 'five plus three' approach.

1) The first was to enhance transparency in corporate management. A new system of consolidated financial statement was introduced so as to make public the overall financial standing of an entire business group rather than each individual

subsidiary. This was intended to make transparent *chaebol's* ownership structure and leverage.

2) The second goal was the elimination of cross-debt guarantees that had been the favourite tool of the *chaebols* to expand their business with bank loans. New cross-debt guarantees were banned and pre-existing ones were to be terminated by March 2000.

3) The third goal was to improve the financial structure of the firms. The debt-equity ratio of the *chaebols* was to be decreased to below one by March 2000 from a high of 4-5 during the 1980s and 1990s.

4) The fourth goal was to institute better corporate governance, reflecting the global standards and increased accountability of management and major shareholders.

5) The final goal was streamlining the business activities of the *chaebol,* which had pursued diversification recklessly, emphasising growth, which in turn led to excessive investment and overcapacity in many industrial sectors by the late 1990s. The *chaebols* were to be required to declare their core businesses and were pressed to abandon non-core firms either through sales or "Big Deals" – swapping business among *chaebols* (Lee and Han, 2006: 314).

The government took unilateral action in three additional areas to correct 'undesirable' aspects of *chaebol* management practices, including a crackdown on the illegal transfer of wealth and inheritance tax evasion among members of the founding families, the prevention of illegal transactions and the curbing of *chaebol* control of financial institutions (Cherry, 2005: 333). The rationale behind these transactions, which came to be known as the 'Big Deal', was that Korea's business groups had to trim their operations, focus on a small number of core businesses and enhance their international competitiveness in order to survive the crisis and compete with multinational firms in the domestic and global markets (Cherry, 2005: 328). The Kim administration following the logic of market reforms declined to bail out insolvent firms and let the fourth largest *chaebol* in Korea, the Daewoo group and 16 other business groups go bankrupt. The Roh Moo Hyun administration also followed the *chaebol* reforms, aggressively investigating illegal political funding and accounting irregularities by the *chaebols* and pressurising them to improve corporate governance.

Table 1: The status of the 'Big Deals' (31 December 2001)

Type of industry	Targeted firms	Details	Status (December 2001)
Aerospace	Samsung Aerospace Industries; Daewoo Heavy Industries; Hyundai Space & Aircraft	Merger of three companies to create Korea Aerospace Industries	Completed; delay in attracting foreign capital; difficulty raising working capital
Automobiles And electronics	Samsung Motors; Daewoo Electronics	Daewoo Motor to take over Samsung Motors; Samsung Group to acquire Daewoo Electronics	Aborted – Samsung Motors sold to Renault after Daewoo bankruptcy; Daewoo Motors sold to General Motors; Daewoo Electronics to be sold to foreign investors
Oil refining	Hyundai Oilbank; Hanhwa Energy	Hyundai Oilbank to take over Hanhwa Energy's oil-refining business	Completed – in process of attracting foreign capital in form of equity participation
Petrochemicals	Samsung General Chemical; Hyundai Petrochemical	Two companies to merge	Aborted – efforts to attract foreign capital in form of equity participation failed
Power-generating equipment	Korea Heavy Industries; Samsung Heavy Industries; Hyundai Heavy Industries	Transfer assets of Samsung Heavy Industries and Hyundai Heavy Industries to Korea Heavy Industries (a state-owned firm)	Completed
Rolling stock	Hyundai Precision; Daewoo Heavy Industries; Hanjin Heavy Industries	Establish Korea Railway Vehicle Co. as joint company (40% shares for Hyundai and Daewoo, 20% for Hanjin)	Completed; failed to attract additional investment and experienced delay in debt reduction plan

Table 1: The status of the 'Big Deals' (31 December 2001) *(Continued)*

Type of industry	Targeted firms	Details	Status (December 2001)
Semiconductors	Hyundai Electronics; LG Semiconductors	Merge Hyundai Electronics and LG Semiconductors	Completed;,Hyundai Electronics took over LG,Semiconductors to form Hynix, Semiconductor but experienced financial difficulties
Ship engines	Korea Heavy Industries; Samsung Heavy Industries	Korea Heavy Industries to take over Samsung Heavy Industries' ship engine business	Completed; Korea Heavy Industries earmarked for privatization

SOURCE: Cherry, 2005: 337-338.

3.6.3 RESTRUCTURING OF THE STATE APPARATUS

The Korean state started dismantling the economic bureaucracy since the early 1990s. During the globalisation (*segyehwa*) drive under Kim Young Sam, the government downsized the government bureaucracy. In this course, for an integrated approach to implement the government's functions on economic affairs in an efficient and coherent way, the Economic Planning Board (EPB) was merged into the Ministry of Finance, newly forming a mega-economic bureaucracy named the Ministry of Finance and Economy (MOFE) in 1994, which was a historical incident considering EPB's decades-long role in the development planning of the country. This resulted in a power monopoly by MOFE eliminating checks and balances among economic bureaucracies, and finally led to its irresponsible behaviours for the months before the crisis of 1997 (Lim and Jang, 2006: 16).

After the financial crisis, several measures were taken to streamline the structure and functions of the government organisations. The administration set three goals for its public sector restructuring program: a smaller, more efficient government, a highly competitive government, and a customer-oriented government (Lee, 2004: 114). The first reshuffling of the central government structure was carried out in February 1998. Through this, the new administration reduced the number of cabinet members from 21 to 17. The Ministry of Government Administration and the Ministry of Home Affairs were merged to form the Ministry of Government Administration and Home Affairs (MOGAHA). In order to monitor the reform programs, the government established the Planning & Budget Commission, which later became the Ministry of Planning and Budget, the Financial Supervisory Commission, and the Regulatory Reform Committee (P.S.Kim, 2000: 148). The MOFE's functions were separated and transferred to other Ministries; its budgetary authority was transferred to the National Budget Administration, its financial supervision authority to the Financial Supervisory Commission, and its trade negotiating authority to the Ministry of Foreign Affairs and Trade. A second government restructuring in May 1999 saw an expansion of government bodies: the Ministry of Planning and Budget (MPB), the Government Information Agency (GIA), and the Civil Service Commission (CSC) were newly found. The Planning and Budget Commission and the Budget Administration merged to form the Ministry of Planning and Budget (MPB) under the Prime Minister (Lee, 2004: 114). A third government restructuring was introduced in January 2001. The Ministry of Finance and Economy (MOFE) and the Ministry of Education were upgraded to the deputy prime minister level, and the Presidential Commission on Women's Affairs was transformed into the Ministry of Gender Equality. Deputy prime minister positions, eliminated in the first central government restructuring, were reintroduced in the third government restructuring (ibid).

Since early 1998, government and other public sector organisations have been looking for areas to be trimmed down by systematically examining redundancy and inefficiencies. These include all 57 of the government-funded research institutions, several hundred quasi-governmental organizations, about 300 government committees, and all state-owned enterprises not slated for privatisation. Recently there has also been headway in contracting out more government work to private operators (P.S.Kim, 2000: 148).

3.7 THE TRANSFORMED STATE IN KOREA.

Contrary to the popular assumption that financial crisis has made Korean state a non-interventionist minimalist state, the state has transformed itself into a neoliberal-regulatory state and is potentially a highly effective one. The state used its *dirigiste* mechanisms to bring about desirable changes in the Korean political economy. It is ironic that the Kim Dae Jung government's neoliberal reforms which were designed to curb the interventionist developmental state, ended up being quite interventionist, even domineering (Cherry, 2005: 345).

> As successive World Bank annual reports have made clear, contemporary neoliberalism is always about state transformation, specifically the building of institutions for markets, not state retreat. Neoliberalism essentially involves the creation of a 'new' state which seeks to support the functioning of market disciplines and the commodification of ever greater areas of social and economic life. Market disciplines do not function automatically. Rather, they depend on the existence of strong legal institutions (systems of market-based financial regulation, strong bankruptcy and accountancy laws, and statutory corporate governance standards) if they are to function properly. There is, for example, a need for a strong regulatory state capable of ensuring that firms and financial institutions cannot easily conceal losses and continue to trade when clearly insolvent (Pirie 2005: 27).

In the months following the crisis the Kim Dae Jung government carried out a series of reforms with the aim of stabilising the country's financial markets, strengthening the corporate sector and restoring international confidence in Korea (Cherry 2005: 333). The main institutional framework of the developmental state, "the state-bank-*chaebol*" nexus underwent massive restructuring. As a result Korean state has transformed from a developmental state to a neoliberal-regulatory state.

The strong regulatory state required in the liberalisation process refers to one with (a) political integrating power to coordinate the internal disharmony between state components and conflicts between social interests; (b) a capacity to enforce efficient regulations to oversee market actors; and (c) a capacity to alter an economic structure to adjust to changing economic environments (Lee, 2000: 116). Further Lee says that,

> Liberating the market from the state is distinct from removing regulations on the market. Converting a developmental state economy into a liberal market economy presupposes that the state refrains itself from granting market protection and support for the purpose of promoting 'catch-up'. However, even under the liberal market economy, state intervention in the market is maintained. As the administrator and architect of economic institutions, the state must keep fulfilling its major functions, such as stabilizing the macro economy, correcting market failure and redistributing income. These require a strong regulatory capacity on the part of the state (Lee, 2000: 120).

According to noted scholar Ha-Joon Chang, the concept of free market is a myth as all states including those which have adopted neoliberal mechanisms also intervene in the market process in one way or the other. States do intervene to regulate labour laws, environmental policies, invoking copyright acts, etc even under neoliberalism. Presently nobody considers prohibition of slavery or child labour in the developed countries as state intervention. Similarly, heavy restrictions on immigrations and strict environmental laws in the developed countries are not considered state intervention.

> ....Defining a free market is at the deepest level a pointless exercise, because no market is in the end 'free', as all markets have some state regulations about who can participate in which markets and on what terms. It is only because some state regulations can be so totally accepted that some markets appear to have no 'intervention' at all and therefore to be 'free' ....For one thing, even in the most advanced capitalist economies of today, which on the whole already have well-developed market systems, the state is constantly involved in creating new markets and thus setting up new rights and obligations necessary for their functioning, on the one hand, and modifying the existing rights-obligations structure in order to accommodate them, on the other hand. The most prominent recent examples include the creation and the restructuring of markets by the state in mobile telecommunications, computer software, electricity and Internet service provision (Chang, 2002: 544-548).

The assumption that a neoliberal state is a minimalist is a myth. The state regulations are essential even while the state is promoting neoliberal doctrines. This is proved by the fact that the so-called neoliberal states had been playing an important role in creating new institutions and mechanisms to 'keep-up' with the structural changes in the global economy. Rather than sounding death knell for the state in Korea, the post-crisis period has witnessed the ongoing transformation of a developmentalist, 'plan-rational' state to a 'market-rational' one, while the economic development continues to be the main priority; the state's *modus operandi* has changed considerably (Hundt, 2005: 243).

CHAPTER 4

CHAPTER 4: TRANSFORMATION OF THE KOREAN 'DEVELOPMENTAL STATE' TOWARDS 'TECHNO-SCIENTIFIC' STATE

4.1 THE DEBATE

The massive transformation of the developmental state in Korea after the 1997 financial crisis has produced volumes of literature on the viability of the developmental policies in the wake of changing global political economy. The larger question is that, how should the post crisis Korean state be considered as; is the transformed Korean state a neoliberal-regulatory state or is it still a developmental state? This issue is debatable and has produced scholars positioning themselves on different lines of argument.

The first group consists of neoliberal scholars, they agree that though significant neoliberal reforms have taken place in Korea but still it cannot be considered a neoliberal state, as the state has not shown much enthusiasm towards neoliberal reforms and has subordinated sound market principles to what is politically expedient. The second kind of argument is forwarded by left-Keynesians such as Ha-Joon Chang, James Crotty, Kang-Kook Lee, etc.; they are of the view that a neoliberal state is emerging in Korea but reforms have locked Korea into a low investment/low growth trajectory. The third kind of argument is by Linda Weiss, who is of the opinion that Korean state is pursuing developmental goals, such as funding SMEs and innovation programmes. The state is creating 'streamlined national champions' in both financial and corporate sectors. These restructuring programmes share more in common with those of the classical developmental state than any neoliberal state. The fourth argument is presented by Iain Pirie, according to which Korea should now be considered as a neoliberal state; given the fact that Korean state no longer controls the finance, which was the main instrument of the Korean developmental state. According to him, 'the changes in the global economy in the two decades preceding 1997-98 crisis imposed an increasingly inescapable pressure on the Korean state to effect a neoliberal transformation and Korea's future as a centre of capitalist accumulation has for some time been bound up with the success of the neoliberal project' (Pirie, 2005: 355).

In the light of above argument presented by various scholars and taking into consideration the specificities of Korea, a different argument can be put forward.

As in the realm of developmental state, there was no universality; the developmental states have varied greatly both in their structure and functioning. For example the North East Asian developmental states pursued different policies as compared to the South East Asian states.

> With regard to South East Asia it must be said that just as here is no single 'European model', so there is no monolithic; Asiatic model'. Merely a patchwork of poorly insulated yet highly interventionist states whose policies have more often sought to promote ethnic, patrimonial or other particularistic interests than to maximize national goals through a transformative project. Thus, the constellation of political priorities, state structures and government-business relations that prevailed in Thailand, Malaysia and Indonesia during their high growth phase has differed significantly from that more typically found in the North (Weiss 2000: 24).

While the developmental regime in Korea promoted big business conglomerates and followed 'high-debt' model, the Taiwanese government promoted SMEs and followed 'low-debt' model. Similarly the neoliberal restructuring have also varied across the states. While the Korean state transformed itself into a neoliberal model in the 1990s, the Taiwanese state remained very cautious with regard to moving in the same direction (Wang, 2007: 1100). Also in the event of the financial crisis, while Korea duly followed IMF directives, others, like Malaysia, rejected outright (Lee and Han, 2006: 307). Since the domestic state capacities differ, so the ability to exploit the opportunities of international economic change – rather than simply succumb to its pressures – will also be much more marked in some countries than in others (Weiss, 1997: 26). The economic reforms indeed vary across time, region, countries and even sectors, depending upon the causal stimuli that necessitated reform (Lim, 2010: 190). Thus, though the states are adapting to the structural changes in the global political economy but are yet not converging towards a single neoliberal model.

Why did the Korean developmental state undergo so many changes after the 1997 financial crisis? Was it simply under the IMF directives or were there some other factors working which compelled Korea to undergo massive restructuring. The possible reason could be that structural changes in the global political economy linked with the dismantling of the Cold War era structures were making operation of *dirigiste* policies of developmental state in Korea unviable. The demands for neoliberal restructuring were also emanating from the indigenous sources, as Lim and Jang say,

> It is noteworthy that such neo-liberal consensus was built not only on the ideational level, but also on common interests shared among the domestic elite. A study shows that many *chaebol* initially welcomed neo-liberal reforms following the 1997 crisis, because they expected that the reforms would not only make labour more flexible and reduce labour's power, and would also give the *chaebol* increased independence from government intervention. Another study emphasises that elite bureaucrats also saw the reforms as a chance to maintain and expand their power in the wake of all-encompassing reforms which would make private actors vulnerable and depend more on them (Lim and Jang, 2006: 447).

The Korean state restructured itself to make it more efficient and adapt to the domestic and global changes. It trimmed down its bureaucratic apparatus, opened its financial system to the global finance and restructured the corporate structure. In this whole process Korean state employed its *dirigiste* mechanisms to direct the changes. The specificities of the Korean case cannot be overlooked[18]. Though the state has adopted neoliberal policy instruments but still it cannot be compared with the Anglo-American neoliberal states.

> In spite of all the 'liberalisation' and 'deregulation' of the financial sector, the Koreans have no intention of replacing their former highly interventionist model of development with an Anglo-American style non- interventionist economy based on unfettered market forces. While the new Korean model will have at its centre an economy which is much more open and transparent, it will be closely supervised and regulated, and the sources of corruption and excessive risk-taking, such as too close ties between the Bank of Korea, commercial banks and lesser *chaebol*, will be much reduced. If these reforms succeed, the 'renovated' Korean economy is likely to benefit in terms of competitiveness; moreover, it could have new sources of competitive advantage (Mathews, 1998: 756-757).

In the events of earlier crisis such as in 1972 and later in 1980, the Korean state had made several key changes but the post 1997 changes were much larger as compared to earlier ones. In the past, liquidation of insolvent companies meant acquisition of the subsidiary

[18] Unlike the failed Russian 'Neo-liberal experiment' in the 1990s where state 'rolled back' dramatically leaving the market forces to install market mechanism, Korean state intervened to promote market forces.

companies by third party through government intervention (Kim, 2005: 474). But in the wake of the most recent crisis the state has demonstrated an unprecedented determination to force leading conglomerates to restructure and improve profitability, a willingness to allow major strategically important firms to fail, and has actively promoted the sale of key assets to foreign investors (Pirie, 2005: 356). The 1997 financial crisis was a strong jolt to the East Asian developmental states in general and Korea in particular. However none of the other Asian states underwent such massive transformations as the Korean state did after the crisis. With the help of IMF rescue package and guidance, Korean economy recovered quickly and the economy rebounded within two years after the crisis. Korea repaid the IMF in full on 23 August 2001 before the IMF program was terminated in December 2001. It is also quite significant that no effort was made to undo the reforms that were enacted after the crisis of 1997 under IMF directives. This may appear odd since Korea could have, at any time, exercised its sovereign authority to reverse any policy instituted by an outside agency such as the IMF, and given Korea's long history of government control of the financial industry, temptation for reversal would have been understandable (Lee and Han, 2006: 322)[19].

However years of interventionist policies cannot be shelved off within such a short period. The transformed state in Korea with its neoliberal-regulatory mechanisms still intervenes in the market process, though not in a direct way but in indirect way. One area where the Korean state has moved into and had been playing a crucial role is the creation of a distinct techno-scientific sphere and support to R&D programmes. Despite the transformation of the Korean state and its withdrawal from the larger developmental roles, this area of the state intervention in technological development and research reminds of the earlier era 'target-oriented' manufacturing and export of goods by the corporate sector under the guidance and supervision of the state in Korea. These efforts of the state could best be considered as adapting to meet the challenges of the newly emerging global political economy which is now more knowledge based and requires massive investments. The support of state in this arena is crucial and virtually reflects the pre-crisis interventionist mechanisms but still it cannot be regarded as developmental

[19] Structural reforms in Korea after 1997 financial crisis were not only imposed by outside pressure, but they had political support in the shifting locus of Korean politics from conservatism to progressive leaning.

state in the classical sense. For example, the US state also plays important role in supporting key firms by funding commercially applicable research through its defence and medical research policies but US state cannot be regarded as developmental state (Pirie, 2005: 27). In this case also the industrialised countries world over have adapted to the changing global economy in different ways and have employed different policies and mechanisms.

> The changing world market has introduced a situation in which the industrialized countries are confronted with new competitors and new circumstances. But national pre-conditions to adjust to the changes of the world market differ from country to country. This has to be kept in mind when considering the innovative ability of the various industries and their participation in the world market. The greater the economic risks for an enterprise and more intensive the global race for techno-industrial innovation, the more the national concepts on industrial modernisation are changing (Hilpert 1990: 77).

The argument here is that, first, mode of neoliberal restructuring varies from country to country in order to adapt to the structural changes in the global economy and secondly, free market and *laissez-faire* political economy is a myth, which exists nowhere in the world and states even after neoliberal restructuring intervenes in the market process as the case study of the Korean state's role in setting up of a distinct techno-scientific sphere proves this fact. Taking into consideration the specificities of Korea, the transformed state in Korea that emerged out of the 1997 crisis is here being referred as 'Techno-Scientific State'[20].

4.2 STATE POLICIES AND TECHNO-SCIENTIFIC DEVELOPMENT

The rise of knowledge economy has thrown new challenges. Is there a causal connection between knowledge-based global political economy and neoliberal restructuring? To this Iain Pirie says that, the third industrial revolution and the rise of the global financial market have served to undermine the viability of state-led development in two closely related ways:

[20] The term 'Techno-Scientific State' has been quoted from the article, 'Korea's New Techno-Scientific State: Mapping a Strategic Change in the Developmental State', *China Report: Sage Publications*, 42 (3):257-268, by Dr Jitendra Uttam (2006).

1) First, some of the most dramatic technological developments associated with the third industrial revolution have occurred in 'space-shrinking' technologies. It is now possible to move information from one 'centre of economic activity' to another almost instantaneously and relatively cheaply, regardless of the geographical distances involved.
2) Second, due to the ever-increasing levels of research and development (R&D) spending necessary to remain competitive within key global industries, the capital requirements of major firms are both enormous and continuously growing. The rapid growth of such costs represents a problem for the *dirigiste* state and the firms dependent on its support (Pirie 2005: 28-29).

The rise of the global knowledge economy has been an important factor which made policy changes and restructuring of the 'developmental state' structures inevitable. The ability of both the state and domestically based private financial institutions to fund investment in R&D sector is limited and the need of firms to remain competitive in high technology industries is critically dependent on their ability to access global capital and equity markets and to embed themselves within transnational technological networks (ibid). Thus for many scholars the global knowledge economy is incompatible with the developmental state model as its bureaucratic structures and the policies are considered as not viable in the present era of the networked economy, which demands greater devolution of powers and integration to the global economy. Also the domestic financial structures are not capable of providing enormous funding required for techno-scientific innovations. These factors are not only transforming the internal structures of the firms but also leading to fundamental changes in the structures of national and global governance. According to Wang,

> In contrast to the catch-up paradigm, the innovation-based economy aims at creating and searching for frontier technologies that do not yet exist in the market. Because state bureaucrats do not necessarily have all the relevant knowledge needed, the state cannot play the leading role that it does in the catch-up paradigm. However, it can play the role of a regulator that builds up an infrastructure that is conducive towards creating new knowledge and technologies. In the same vein, neither is the state-controlled banking system directed to the pursuit of innovation. Financial systems that may be favourable to

> technological innovation are either the Japanese keiretsu or German hausebank systems, in each of which private banks establish long-term relationships with specific firms and provide them with the needed resources to explore new technologies, or the Anglo-Saxon financial market system, in which the securities market plays the major role in allocating capital resources so that firms in need can explore new and sometimes radical kinds of technological development. The industrial structure also affects the way in which technological innovation is pursued (Wang, 2007: 1088).

But the recent trends show that state support is still crucial for the integration of the domestic economy to the global economy and also the support which state gives for the techno-scientific innovations and for R&D. The theoretical background of the government intervention for the successful transformation to knowledge-based economy can be traced from the neoclassical 'market failure model'. According to the World Development Report by World Bank, it is explained as follows:

1. Because the market for knowledge often fails, there is a strong rationale for public action. The state is in unique position to narrow knowledge gaps—for example, by adopting an open trade regime, supporting lifelong learning, or establishing a sound regulatory environment for a competitive telecommunications industry.
2. Information is the life blood of markets, yet markets on their own do not always provide enough of it, because those who generate information cannot always appropriate the returns. Public actions are thus required to provide information to verify, quantify, monitor performance and regulate transactions to provide the foundation for successful market based development (Lee and Gibson, 2002: 310).

The assumptions that knowledge based economy is open and is not compatible with the state interventions is not true. More to the point, state support has historically played an important role in innovation and knowledge generation and continues to do so (Chu, 2009: 288). The developmental states like Korea followed the West, through learning and imitation of the established technologies. Korea made remarkable performance in the 'catch-up' process by effectively mobilising the vast pool of its cheap and skilled labour and through industrial policies. But the changing global economy requires new mechanisms to remain competitive.

> The process of closing the technological gap opens up a new logic, that of keeping up, moving ahead, or simply staying ahead of one's competitors downstream. If this new logic could be simply narrowed down to the quest for 'break-through' technologies, as the catch-up theorists imply, then this would indeed make industrial strategies much more difficult and uncertain, if not fruitless. But keeping up with change in the modern industrial economy entails many more important tasks than looking for next big invention. These tasks include assisting an orderly retreat or restructuring for industries (as in US policy for semiconductor revival in the late 1980s and 1990s), maintaining a long-term investment programme for upgrading in mature industries, promoting new infant industries in high technology, as well as tracking areas with new product and technological potential (Weiss 2000: 27).

Given the high risk involved, huge investment and long gestation period required for the research and development of new technologies, corporate sector cannot be in a position to invest in this field during the initial phase of industrialisation. The compulsion to remain competitive in the international market compelled the state to invest in the research related activities. The state's engagement in organising an appropriate research system and in extending the instrumental function of science aims to preserve the established competitive position in highly attractive and fast-growing markets of science and technology-based products (Uttam, 2006: 263).

Also, head-to-head competition among firms in the world market has forced enterprises to maintain high levels of spending on capital investments, including purchasing expensive state-of-the-art production equipment and continuing to raise the R&D budget in order to stay at the forefront of technological competition (Wang, 2007: 1089). This requires the opening of the domestic financial system in the country. In order to remain competitive in the global market, changes in the state structures are inevitable but it no way diminishes the role of the state. After the 1997 financial crisis, the ability of the corporate sector in Korea to invest in R&D was severely constrained. In these circumstances, the Korean state made due efforts to support industrial R&D programmes. In the recent years though the corporate sector has been making more investments in the R&D but the role being played by the state through its regulatory mechanisms and facilitating innovation activities cannot be ignored. In the present context, while the government plays a critical role in creating the appropriate incentive regime and in strengthening the education and information base, entrepreneurship and innovation are central to the knowledge-based economy (World Bank, 2000: 20).

4.3 EMERGENCE OF THE 'TECHNO-SCIENTIFIC STATE' IN KOREA

As a case of late-late industrialisation Korea was able to break into the highly competitive markets of the developed world because of cheap labour cost, high quality products and extensive state guidance. During the initial phase Korea depended on reverse engineering. The lax intellectual property rights regime prevailing at the time meant that little attention was paid to the legal aspects of imitating important technology through reverse engineering (Linsu Kim, 2004: 351). This model of development started facing crisis with the rise of new manufacturing hubs and evolving new Intellectual Property Right (IPR) regime. The new Asian division of labour threw challenge to Korean manufacturing sector and the East Asian 'flying geese model' started facing crisis with the rise of other manufacturing hubs in China and South East Asia. In order to remain competitive in the international trade of the manufacturing goods, Korea needed to invest heavily in the field of research and innovation of new technologies. Also, there is a considerable difference between 'techno-scientific' and 'techno-industrial' development. For example the private sector in Korea funded R&D in the techno-industrial sector but failed to invest in the techno-scientific area due to uncertainty, longer gestation period, and prohibitively high cost, therefore, state in Korea moved into to push techno-scientific sphere.

The prohibitively high cost required for techno-scientific innovations also compelled the corporate sectors in Korea to put pressure on the state to open up the market and liberalise finance so as to gain access to the global financial institutions and global chain of research networks.

> The *chaebols'* emphasis on globalisation was mainly due to their pursuit of scale economies. For the Korean firms, because their voluminous production was based on few products (mostly electronic products and cars), the requirements for capital investment and R&D spending were enormous in order to remain competitive in the global market. As technological development was becoming more expensive, the Korean economy needed to invest on a massive scale to

> remain competitive, and this was to a certain extent beyond what the Korean domestic market could afford. The Korean *chaebol* needed access to global capital and the equity market in order to fund new investments as well as tap into transnational technological networks to further develop its frontier technologies (Wang, 2007: 1093).

The Korean thrust to the techno-scientific field in the pre 1997 period can be broadly separated into two phases. The initial period was government led and the later period was private sector led. After the 1997 crisis, the Korean state has taken several measures to promote techno-scientific development and innovation in Korea.

4.4 BACKGROUND TO THE SCIENCE AND TECHNOLOGY(S&T) POLICIES IN KOREA[21]

The science and technology policy in Korea has passed through several phases after the independence. During the 1960s the aim was to lay a foundation for industrialisation through the development of import-substitution industries, expansion of light industries, and support for producer-goods industries. During this phase the Korean S&T policy focused primarily on the acquisition of foreign technology and the build-up of absorptive and adaptive technological capabilities with the establishment of basic S&T infrastructure. The Ministry of Science and Technology (MOST) was established to undertake scientific and technological development. The first Government Research Institute (GRI), Korea Institute of Science and Technology (KIST), an industrial technology research institute, was created in 1966. The following year, in 1967, the Science and Technology Promotion Law was enacted. In the 1970's, science and technology strategy was aimed at strengthening technical and engineering education in the heavy and chemical industry fields, improving the institutional mechanism for adapting imported technology, and promoting R&D to meet industrial needs. This strategy was in line with the shift in industrialisation strategy in Korea towards heavy and chemical industries. During the 1980's, industrial policy was aimed at transforming the industrial structure into one based on comparative advantage, to expanding technology-

[21] This section of the chapter has made quotations from the website of the Ministry of Science and Technology (MOST) Accessed on 24 April 2011, URL: http://park.org/Korea/Pavilions/PublicPavilions/Government/most/policye1.html

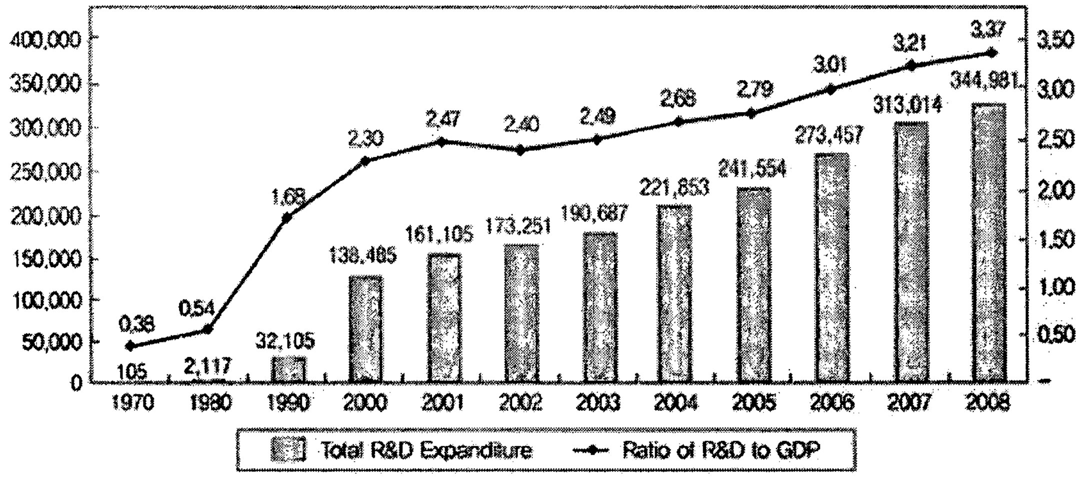
intensive industry, such as machinery and electronics, and to encouraging technical manpower development. This was also the phase when the Korean state started the R&D programmes for the indigenous technological development and the private industries started to establish their own labs to meet the growing need for technology development. Recognising the needs for strategic technological development and R&D investment at the national level, the Korean government started National R&D Programmmes (NRDP) in 1982. The NRDP initiative helped GRIs increase their research activities and provided opportunities to cooperate with industry and university, which had relatively weak R&D activities. In other words, the Korean government, through the NRDP, tried to stimulate R&D activities of the private sector, which should develop its own technological capacity (Yim and Kim, 2005: 39). In the 1990's, the state set its policy goal at improving overall national competitiveness, the structural adjustment of industries, technological innovation, improvement of information networks, efficient use of human and other resources, etc., are emphasised as means to enhance industrial competitiveness. Since the early 1990s, the Korean state has placed more emphasis on increasing R&D expenditure so as to transform the economy from being in a catching-up mode towards facilitating innovation (Wang, 2007: 1095).

4.5 RECENT DEVELOPMENTS IN THE S&T POLICY IN KOREA.

The Korean economy is today confronted with some serious problems. Caught between the rapid advances of the export-oriented industrial hubs in the region, especially China on one hand and the technological advance G-7 countries on the other, Korea is currently under strong pressures to shift its developmental strategy towards becoming an advanced knowledge-based economy (World Bank, 2000: 9). Though the Korean economy quickly rebounded after the financial crisis but its sustainability in the face of the structural changes in the global economy such as rise of Information and Communication Technologies (ICT), etc had been speculated. After the 1997 financial crisis, Korean state has made serious efforts in this direction to encourage scientific innovations and R&D. To help overcome the Asian crisis of 1997, the Ministry of Information and Communication (MIC) established the "Cyber Korea 21" programme in 1999. Cyber Korea 21 was designed to achieve three major goals: build IT infrastructure, improve productivity and create jobs based on IT development and application (Lim, 2010: 198). In the same year, the Korean government introduced the 'Brain Korea 21' (BK-21) project, which is a major reform project in higher education that aims at cultivating creative and quality human resources necessary for the forthcoming knowledge-based society. To accomplish this aim, the government has decided to invest 1.4 trillion won (about $1.2 billion) in universities over seven years (Uttam, 2006: 258). Since 2000, the Korean S&T policy has taken a more central role in innovation-led economic growth. In 2002, ''e-Korea Vision 2006'' was initiated to enhance the status of Korea in the IT sector. The National S&T Council (NSTC), chaired by the President had been strengthened to function as the highest decision-making body on S&T innovation policies. Beside this, GRIs have been reorganised to make them more efficient. R&D budget in Korea has sharply increased at more than 10% annually since 2000. Since the launch of President Roh's administration in early 2003, the Korean government has been trying to realise the new era of 'the Second Establishment of the state on the basis of science and technology' (Yim and Kim, 2005: 40). The R&D expenditure as a proportion of GDP in Korea in 2007 was 3.21 per cent, which was also one of the highest in the world.

<Figure 1> Trend of R&D expenditure and R&D percentage of GDP

(Unit : 100 million won, %)



Note) Humanities and Social sciences have been included since 2007

SOURCE: MEST, http://english.mest.go.kr/web/1750/site/contents/en/en_0240.jsp

Table 2: Total R&D Expenditure/ R&D Percentage of GDP (Unit: hundred million won, %)

Year	R&D Expenditure	Rate of increase	Ratio to GNI	Ratio to GDP
1998	113,366	7.0	2.30	2.26
1999	119,218	5.2	2.20	2.17
2000	138,485	16.2	2.31	2.30
2001	161,105	16.3	2.48	2.47
2002	173,251	7.5	2.40	2.40
2003	190,687	10.1	2.48	2.49
2004	221,853	16.3	2.68	2.68
2005	241,554	8.9	2.79	2.79
2006	273,457	13.2	3.00	3.01
2007	313,014	14.5	3.20	3.21
2008	344,981	10.2	3.35p)	3.37p)

Note: 1).Humanities and Social sciences have been included since 2007 2). p) Means provisional

SOURCE: MEST, http://english.mest.go.kr/web/1750/site/contents/en/en_0240.jsp

4.6 INSTITUTIONS INVOLVED IN THE TECHNO-SCIENTIFIC DEVELOPMENT IN KOREA

4.6.1 GOVERNMENT RESEARCH INSTITUTES

The first Government Research Institute (GRI) was established during 1966 named as Korea Institute of Science and Technology (KIST), it began operations in 1969. Initially it has to suffer from various problems such as lack of skilled manpower and poor linkages with the industries. Furthermore, KIST could not compete with foreign firms in supplying detailed blueprints and other manufacturing know-how, as well as being unable to assist industries in solving teething problems in the critical initial stages of production (Uttam 2006: 264). In spite of these drawbacks, KIST made several contributions to the industrial development in Korea, through joint research progammes with the private sector. The KIST contributed in raising skilled manpower, which furthered the opening of several other GRI in the subsequent decades. During the 1970s, about 20 more GRIs sponsored by various government ministries were created as either KIST spin-offs or through the reorganisation of various existing research operations (Sohn and Kenney, 2007: 998). KIST also played a significant role in transferring technology to industry through reverse engineering of foreign technology under lax IPR protection—an activity that was beyond the capacity of Korean industry at the time (Linsu Kim, 2004: 354). After the 1997 financial crisis, the state is taking several steps to reinvigorate the GRIs in a big way. According to Yim and Kim, 'as a result, the Asian economic crisis in the late 1990s provided the momentum for the Korean government to take a major restructuring process of GRIs and introduce the Research Council System (RCS) by benchmarking German and British systems in 1999, but still some problems related to GRIs and RCS remain unresolved and it will take a long, continuous effort to solve them' (Yim and Kim, 2005: 40). The GRIs have been regrouped into three research councils and put under the jurisdiction of the Prime Minister's Office. The three research councils are: 1) Korea Research Council for Fundamental Sciences, 2) Korea Research Council for Public Welfare Technology, and 3) Korea Research Council for Industrial Technology. The Chairman of the research council reports directly to the Prime Minister's Office.

4.6.2 UNIVERSITY-INDUSTRY LINKAGES

Initially there were not many interactions between the Korean universities and the industries. The universities remained engaged primarily as undergraduate teaching institutions rather than research-oriented. In 1970, University R&D expenditure in Korea was merely 400 million won (US $ 1.3 million) (Uttam, 2006: 264). But in the subsequent period the role and significance of the universities in Korea have increased in the context of scientific research and innovation. In this case also the role of GRIs had been crucial.

> The drive to invest more in R&D has meant a new role for universities and Government Research Institutes (GRIs). In general, GRIs have played a major role as the backbone in carrying out national R&D projects since 1982 in a complementary role to that of firms, particularly in the developmental era given the inadequacy of university research activities in Korea. However, as *chaebol's*

> R&D capacity has grown, coupled with the changing nature and significance of the universities, the pivotal power of GRIs is in question, and has been redefined. Equally these developments have asked of universities that they play a double-edged role: supplying high-quality labour and researchers and the technology for long-term R&D. In the developmental phase, universities simply focused on the quantity-supply of graduates with less thought being given to quality, especially in relation to research. Now, however, both are a priority (Park, 2007: 425).

After the 1997 financial crisis several changes have been brought about to encourage entrepreneurship and the university based research system. As a result the Korean university research system had been reorganised. The state is now providing incentives for the project-based scientific research. An important reform legislated in 1998 was the "Special Entrepreneurship Act" that was meant to foster high-technology entrepreneurship through technology transfer from the university to the industry. In 1998, legislation was passed creating a new legal infrastructure to facilitate the exploitation of the university's inventions and patents (Sohn and Kenney, 2007: 996).

Table 3: Professional patent application by various universities in Korea (2002)

University	Region	Number of patent applications
KAIST	Daejon	1,751
Seoul National University	Seoul	1,666
Pohang Engineering University	Pohang	794
Hoseo University	Chungnam	761
Hanyang University	Seoul	715
Yonsei University	Seoul	694
Kyongbuk National University	Daegu	618
Chungnam National University	Daejon	577
Busan National University	Busan	523
Inha University	Incheon	479
Korea University	Seoul	464
Seongkunkwan University	Seoul	456

Chonbuk National University	Chonju	423
Hankuk IT University	Daejon	396
Yoengnam University	Daegu	385
Kyungsang University	Jinju	361
Chonnam National University	Kwangju	357
Chungbuk National University	Chongju	348
Kyonghee University	Seoul	303
Bukyung National University	Busan	297
Kwangju KAIST	Kwangju	290
Aju University	Suwon	265
Kangwon National University	Chuchon	250
Total		13,173

Source: Sohn and Kenny, 2007: 998. (Continued from page 72)

4.6.3 INNOVATION CLUSTERS

An innovation cluster is a networked group of innovation actors and location(s), where the actors are creating economic and technological values by interacting, competing and collaborating with other actors in innovation process, which functions as the source of innovative activities for the region/nation, and has global competitiveness (Yim, 2008). The cluster concept provides a number of useful insights not only in analysis of innovation issues, but also in policy making to accelerate innovation both at the regional and national level (Lee, 2001: 306). The innovation and R&D clusters in Korea were established during the 1970s and 1980s. The government established Daeduck science and industrial park (DSIP) close to Daejon, about 160 km south of Seoul in 1978. This has become synonymous as Korea's research base. As some government-sponsored research institutes (GRI) were successfully located in DSIP, private sector firms began establishing their own in-house R&D institutes in the DSIP, either because of easy recruitment of high–caliber R&D manpower or because of the potential to tap into the spillover knowledge from GRIs.(Lee, 2001: 316). The cluster is roughly divided into four main sectors: information technology, biotechnology, radiation technology and nanotechnology. In 2003, Korean government under President Roh Moo Hyun made a grand plan to relocate a total of about 268 public organisations among 344 (including GRIs) within the capital area, Seoul, to local areas as a part of the administrative capital relocation programme to Chungcheong province after 2005. The government also planned to foster regional innovation clusters and, as a result, promote balanced national development by re-locating public organisations (including GRIs) to local areas. Therefore, the role of GRIs for building regional innovation clusters is expected to increase (Yim and Kim, 2005: 48).

4.6.4 THE ROLE OF CORPORATE SECTOR IN R&D

During the initial phases of industrialisation, Korean industries depended on borrowed technologies and reverse engineering. The prohibitively high cost of R&D, long gestation period and risk involved discouraged the corporate sector to invest in this field. As a result, state took the initiative of building research institutions. Subsequently in the later period, the firms benefitted from the government sponsored Research Institutes in improving the existing technologies. Later they also played important role in the formation of regional clusters.

> *Chaebol* groups are not only the beneficiaries of the industrial complexes that were formed by the government, but also creators of regional clusters. As their businesses expanded, the number of sub-contracting firms used to supply parts and materials increased. Sister companies of most *chaebols* now maintain hundreds of subcontractors and service companies while playing the role of hub companies. That explains why the locations of *chaebol* members are often at the sites of the production clusters (Lee, 2001: 312).

In the recent years corporate sector had been investing more in R&D sector. The private sector accounted for only 2% of the nation's total R&D expenditure in 1963 which had risen to over 80% by 1994, which was one of the highest among both advanced countries and NIEs (Linsu Kim, 2004: 359). Until the mid 1980s the *chaebols* had been sourcing the technological know-how from the foreign destinations. Since then *chaebols* had been investing in the in-house development of the frontier technologies in addition to importing them, in order to remain competitive in the global market. In parallel with enhanced efforts in acquiring knowledge-intensive technologies through formal mechanisms and the mobility of high-calibre human resources, Korean firms intensified their own R&D activities to strengthen their bargaining power in technology transfer, expedite learning from acquired technology and to mitigate foreign dependency in technology (Linsu Kim, 2004: 358).

> Beginning in the 1980s, the locus of R&D performance and innovation shifted from the government to private firms. Private firms had grown significantly and believed it necessary to strengthen their own research capabilities to respond to competition in international markets. The organisation of the Korean innovation system changed significantly as the *chaebols* increased their in-house R&D investment. Initially, Korean firms invested in consumer electronics R&D, but later concentrated upon the electronics components such as DRAM semiconductors, flat panel displays, and the cell phones. To provide an example of the scale of the change, in 1980, 54 firms had R&D centers, while in 1995, 2,226 firms had an R&D facility. Though the giant *chaebol* firms were more aggressive in establishing R&D centers, recent statistics suggest that more two-thirds of existing firms' R&D centers are operated by SMEs. Another indicator is that Korean R&D investment increased from 1.92% of GDP in 1991 to 2.96% in 2001. This was compounded by the fact that Korean GDP grew rapidly during this period (Sohn and Kenney, 2007: 993).

The discussion in this chapter is an attempt to establish that neo-liberal minimalist state is a myth. The case study of the role of the state in the techno-scientific development in Korea exemplifies this fact. Infact, Korea is not the sole case; all industrialised countries are investing and creating mechanisms for scientific development through the state-supported R&D programs. The comparative investment made by varies industrialised states in the recent years in R&D programs (shown in Table 4) proves that techno-scientific development is key to economic development in the present era knowledge-based economy. To this trend of increased expenditure on R&D, Ulrich Hilpert says,

> As far as intervention is concerned, it is not surprising that the state's role is increasing. But that interventionism is turning out to be a pre-condition to techno-industrial innovation is, perhaps, surprising. Industrial modernization cannot be achieved in the absence of techno-scientific progress. The state does not only organize new industries, it also supports the modernization of already established industry. (Hilpert, 1990: 80).

Table 4: Status quo of total R&D expenditure in leading countries

	R&D expenditure (million PPP dollar)	**R&D expenditure based on the figure '1' of Korea**	**Ratio to GDP (%)**	**R&D expenditure per one person (PPP dollar)**
Korea(2008)	31,288	1.0	3.37	644
U.S.A(2007)	368,799	11.8	2.68	1,221
Japan(2007)	150,791	4.8	3.44	1,180
Germany(2007)	84,232	2.7	2.54	1,024
France(2007)	53,883	1.7	2.08	848
U.K(2007)	50,289	1.6	1.79	827
Finland(2008)	9,442	0.3	3.46	1,777
Sweden(2007)	16,336	0.5	3.60	1,786
China(2007)	48,771	1.6	1.49	37

SOURCE: MEST, http://english.mest.go.kr/web/1750/site/contents/en/en_0240.jsp

In parallel with the greater role played by the private sector in R&D, the government in Korea has continued to foster university industry linkages through fiscal incentives and government procurement of advanced technologies (Chandra et al, 2009: 39). The Korean government has increased its support for research and Korean firms have introduced knowledge management to their business processes, including a heavy investment in R&D (Lee and Gibson, 2002: 302).

> It is true that the private sector is playing an increasingly important role in the creation of new technology but it requires more state support to lay the foundation for a national science infrastructure. Industry can only continue in the existing technological fields, but the role of the state is to explore new technological opportunities in distinct techno-scientific spheres. In line with its new role, the Korean government sponsors the Korean Engineering Award, the Monthly Scientist Award, and the Young Scientist Award. Beginning 2001, the government has started to recognise and honour scientific and technological

> accomplishment by conferring the 'Korea Science and Technology Order' on distinguished scientists and engineers. To fulfill the demand of exploring new high-tech frontiers, the Korean state has involved itself in the creation of a new techno-scientific infrastructure, which can create a range of products based on distinct scientific applications. This new role adopted by the Korean state has been instrumental in changing its basic character from one of a 'developmental state' to that of a 'techno scientific state' (Uttam, 2006: 266).

Thus, the 'developmental state' in Korea which subsidised the growth of *chaebol* in the past, has moved in its transformed stage to subsidised R&D in the universities/ institutions. This shift in the focus of state orientation has paved the way for the rise in the techno-scientific state in Korea.

CHAPTER 5

CHAPTER 5: CONSEQUENCES OF THE STRUCTURAL CHANGES

The transformation of the developmental state in Korea has led to changes in the socio-economic realm. The Korean developmental state which was able to maintain its relative autonomy vis-à-vis the society is finding it difficult to insulate itself from the societal pressures. Its very success in industrialising the country strengthened various class forces, whose demands and intrusion into the politics undermined the autonomy of the state (Minns, 2001: 1025). The faulted *dirigiste* state had been displaying more than a few signs of malfunction even before the Asian crisis engulfed it, as it was caught in the cross-current of two challenges: (1) demands of the global market for further liberalisation, deregulation, and competitiveness of the nation's industries and (2) rising pressures to reduce market-generated inequality from an increasingly vociferous society, especially the labour force (Park 2002: 67).

However, democratic consolidation, financial crisis and later neoliberal restructuring has further accentuated some of the problems, such as regional and income disparities. The casualisation of labour and flexible labour laws (although supposed to be good for market economy) has increased joblessness and insecurities among the working class. The unemployment rose to massive proportions after the crisis. Similarly the shift towards techno-scientific research and emerging knowledge-based economy is creating new challenges, such as regional disparities and disparities between skilled and unskilled workers. For the critics of neoliberal restructuring after the 1997 financial crisis, Korea has become a low investment and low growth economy. This chapter would look into the socio-economic fallouts of the structural changes and the new arrangements being devised by the Korean state to check those problems.

5.1 CHANGING STATE-SOCIETY RELATIONS: THEORETICAL CONTEXT.

One major characteristic of the developmental state in Korea had been its relative autonomy vis-à-vis the society but this conception that the developmental state is insulated from the societal pressure is not always valid. State officials are usually not autonomous actors and they do respond to the demands of the dominant class or, occasionally, of the militant lower classes. As Midgal et al. argue that state and society tend to share power in most developing as well as developed countries: states and societies are "mutually transforming" (Kim, 1999: 443). Also, the state-society relations are not static but keep on changing. In an authoritarian regime, the interest groups are kept under control. But as a country democratises, pressures from various groups increase and it is difficult for the political regime to ignore such pressures, especially when they are strong (Lim, 2010: 193).

> The "state capability" approaches suggested that the states are not always insulated from society as Max Weber argued they should be. The state and society are always connected in strong "social ties" capable of resolving collective actions. In this context, Peter Evans attempts to develop Granovetter's concept "embeddedness" that focused on actors and institutions, arguing the existence of social ties. Evans argues that only the combination of connectedness and autonomy, which he calls "embedded autonomy", can make a state be developmental (Kim, 1999: 444).

The autonomy of the developmental state in Korea had been penetrated by various societal interest groups in due course. The democratisation process and economic liberalisation freed social classes, particularly the middle class which has become more influential. The middle class had been more vocal towards the social issues and demands for social changes had been more profoundly raised by the middle class. The economic prosperity in Korea had made middle class strong which was further strengthened by political democratisation and economic liberalisation. Gradually, the civil society's demand for the withdrawal of the government's interference in society grew stronger, and the civilian sector's attempts to check the *chaebol* abusing their monopolistic market power became intensified. Political liberalisation makes the state class listen to the middle class's political voice more seriously, and the rise of affluent society reinstates consumers' right that was suppressed by the government intending to foster producers (Jung, 1999: 32).

During the developmental era the Korean state was able to 'discipline' its labour and corporate class. The idea of discipline to encompass the authoritarian political structures has been a central characteristic of Korea's rapid industrial growth. But the state's capacity to discipline could not remain intact over time (Kim, 1999: 450).

> State institutions, it is has been claimed, are often 'time limited in their effectiveness'. Institutional arrangements undergo 'a process of growth and decay...some of the positive synergies that occurred during a phase of expansion can turn negative under changing historical circumstances'. In short, the institutions that serve society at one point in time may need to be reformed to their effectiveness. As the case of Korea in the post-crisis period demonstrates, it was possible for the state to regain legitimacy by adopting dominant contemporary ideology (neo liberalism), and altering its institutional form accordingly. Specifically, state leaders played an active role in the resolution of the financial crisis of late 1997. Kim Dae Jung and his chief ministers facilitated neo-liberal reform in order to re-legitimise their position in the national political economy, from which they would be able to continue exercising a significant degree of influence on the policy-making agenda (Hundt, 2005: 245).

Thus, with the increase in the societal strength, the relative autonomy of the Korean state gradually eroded. The *chaebols* have become more independent and powerful and state is no more in a position to effectively control them. In a nutshell, the state has become more susceptible to the societal pressures.

5.2 SOCIAL CONSEQUENCES OF THE STRUCTURAL CHANGES

The neoliberal restructuring in Korea, though had been eulogised by many scholars within Korea and abroad, but the socio-economic consequences of the policy change may not support the argument in favour of neoliberal policies. Despite being authoritarian, the developmental era ensured more or less economic growth with social equality, but neoliberal restructuring has created new disparities and socio-economic problems. The 'jobs for life' was ensured through the policies of the developmental state but in the aftermath of the crisis the insecurity, joblessness, social ruptures and discontent have increased manifold. There had been massive layoffs and numerical flexibility had been introduced in the industries. The numbers of non-regular workers have increased considerably in the recent years.

5.2.1 LABOUR

After the crisis there were massive layoffs and the labour laws were made flexible under the guidance of IMF. The previous era guarantee of job and job security slowly vanished away with the neo-liberal restructuring of the economy. This ended the 'jobs for life policy' and introduced numerical flexibility in the industries. In January 1998, Kim Dae

Jung established the 'Tripartite commission' with representatives from the state, organised labour, and big business to forge a national consensus on an agenda for reform, which he hoped would lead to a new democratic class bargain (Song, 2003: 417). While the revision of the Labour Relations Law in March 1997 had resulted in trade unions acceding to the notion of limited job security in return for greater freedoms for union activity, the IMF reforms removed almost entirely the expectation of job security (Hundt, 2005: 246). New capital-friendly labour laws were enacted in February 1998. By the end of 1998 the unemployment rate soared to 8 percent which was approximately a 5 percent increase, compared with the 3.1 percent of the average unemployment rate between 1985 and 2001 (Park, 2007: 419).

Although the developmental regime in Korea had been criticised for exploiting it's cheap and high-skilled working class for decades, with long working hours and low wages. But what critics have overlooked is that there was job guarantee provided by the *chaebols* and the labour laws were quite strict. For a country that had thrived on expansion and growth over the past thirty years, a contraction of the economy by 5.8 percent in 1998, which meant an 11 per cent contraction from the positive 5.5 percent for 1997, was indeed a catastrophe (Lee, 2004: 292-293). For the first time in modern Korean history, firms were allowed to fire as many workers as they pleased in cases declared to be of 'urgent managerial need' (which include foreign take-overs) and temporary help agencies were legalised (Crotty and Lee, 2002: 671). The casualisation of labour has recently been a hot issue in industrial relations, although the proportion of casualised workers is controversial, resulting from a variety of types of employment and thereby different definitions of them, with calculations varying approximately from 27% to over 55% (Park, 2007: 423). The casualisation of labour and polarisation of income could have serious consequences in terms of social cohesion in Korea. Regarding rise in the numbers of irregular workers, Crotty and Lee say,

> The share of workers with "irregular" jobs, including workers with temporary contracts and part-time jobs is, at 56%, the highest in the Organization for Economic Cooperation and Development (OECD). Wages and working conditions for irregular workers are much worse than for those with permanent jobs. "Nonregular workers are paid lower wages [about half], are entitled to fewer

> benefits and are not well covered by the safety net....less than 8% of nonregular workers are covered by unemployment insurance, medical insurance or the national pension". Labour's share of income fell significantly from 62.3 in 1997 to 58.8% in 2004. Since the share of employed persons categorized as "workers" increased from 61.7% in 1998 to 66% in 2004, the erosion of labour's economic share is serious. Meanwhile, the percent of workers who belong to unions is declining steadily (Crotty and Lee, 2005: 420).

The casualisation of workforce is a new trend in Korea that emerged after the neoliberal restructuring. The ratio of non-regular workers to that of the regular workers has increased gradually since 1997 financial crisis. The following table reflects the rise of the non-regular workers in the recent years.

Table 5: Ratio of Regular and Non-Regular Workers, 1995-2003 (%)

Category	1995	1996	1997	1998	1999	2000	2001	2002	2003
Regular Worker	58.14	56.61	54.33	53.13	48.45	47.87	49.15	48.39	50.4
Temporary Worker	27.89	29.60	31.60	32.87	33.60	34.49	34.60	34.45	34.7
Day Worker	13.97	13.59	15.07	13.99	17.64	17.64	16.24	17.16	14.9

Source: Lim and Jang, 2006: 454.

The shift towards knowledge-based economy has also increased unemployment. The knowledge based economy is biased towards high-skilled jobs. As more advanced the industry and the greater the country's commitment to high technology as a means to achieve economic growth, the greater is the loss of jobs. Thus, techno-industrial innovation is accompanied by a tendency that leads to jobless growth (Hilpert, 1990: 82). Such impacts are likely to be felt even more strongly in developing countries, where access to education and ICT infrastructure is far more differentiated and where safety nets are less prevalent (World Bank, 2000: 4). During the earlier era *chaebols* took the responsibility of training the unskilled workers but after the crisis they have cut-down the training programmes.

> Prior to the IMF bailout, *chaebol* had played a societal education role. For example, a *chaebol* [annually] recruited and educated thousands of university graduates for two or three years. In two or three years, the number of the [recruited and trained] workers was reduced to a half [of those initially employed]. [Leavers went to SMEs or other sectors]. However, after the post-IMF bailout, the situation has made *chaebol* unable to carry out such a [educational] function. They were criticised a great deal and told they were 'dinosaur' enterprises. The *chaebol's* [re]educational or training function for university graduates is now dead (Park, 2007: 419).

The *chaebols* have started outsourcing jobs to cheaper wage locations in other countries and are employing high-skilled workers in larger numbers and focusing more on R&D and technology innovation. With these shifts in the policies and neoliberal restructuring, the state has moved into providing basic minimum support to the working class but the social welfare spending is just 10% of total government spending. Unemployment compensation is technically available to more workers in the new Korea, but in 2003 only 19% of the unemployed actually received benefits (Crotty and Lee, 2005: 420).

Further this has also created changes in the political participation of the workers and their membership to the labour unions. Korea is not the unique in this case, as the shift in the global economy and transition to more knowledge based economy has produced changes worldwide. As according to Ulrich Hilpert, "This introduces remarkable social change, in that highly skilled employees differ greatly from traditional workers with regard to participation in social and political institutions—their membership in unions, their voting behavior, their interests and development of social consciousness" (Hilpert, 1990: 82).

5.2.2 RISE IN INCOME DISPARITIES

The neoliberal restructuring has also increased the income disparities in Korea. During the crisis though the upper income class did not suffer much but the lower income groups were severely affected. The post 1997 financial crisis witnessed massive layoffs and rise in the numbers of casual labour. The emerging new political economy is biased towards high skilled labour, which has further accentuated the income disparities amongst the high and low skilled labour. In effect, neo-liberal reform is actually authoritarian and exclusive, because it increases inequality and poverty in society by repressing or distorting the majority of people's demand for socio-economic rights and well being while disproportionately benefiting the "haves" with financial assets and capital via such policy measures as deregulation, liberalisation, privatisation and labour flexibility (Lim and Jang, 2006: 448).

> It is a simple matter of empirical fact that while overall levels of inequality have declined from the peaks experienced in the years immediately following the crisis, levels of inequality remain substantially higher in contemporary Korea than they were prior to the crisis. At the beginning of 2005 Gini coefficient for salary and wage earner households in Korea stood at 0.31.This figure is significantly closer to the post-crisis high of 0.320 than the 1997 figure of 0.283. The rise in income inequality is equally clear when we study the ratio of income of the top 10 per cent of households to the bottom 10 per cent which rose from 3.7 in 1997 to 4.2 in 2002. Furthermore, it is now blatantly obvious that further rapid growth offers little prospect of further decline in the levels of economic inequality, as levels of Gini coefficient have essentially been stable since 2002 – despite steady economic growth. The rise in inequality since the crisis reflects deep-seated changes in the way that labour markets and the economy are organized (Pirie, 2008: 176).

Besides the wage differentials, non-regular workers experience discrimination in terms of severance pay packages, bonuses, and insurance coverage including pension plans, health and unemployment insurance, which in the face of dwindling fringe benefit and job security make social security measures inconsequential (Lim and Jang, 2006: 454). The creation of new insecurities and the intensification of exploitation have been key to the restoration of corporate profitability/ international competitiveness since the financial crisis.

Further, the women workers have suffered more as compared to their male counterparts. As a result of direct discrimination against women and the greater structural vulnerability of female workers total female employment fell by 6.9 per cent, whereas total male employment fell by 4.1 per cent over the course of 1998 (Pirie, 2008: 182). Female workers are employed more as casual labour and face more discrimination as compared to male workers. Female non-regular workers' wage level is on an average about 40% that of male regular workers' wages. Seventy percent of female employees had irregular status in 2000, compared with 57% in 1995 (Crotty and Lee, 2002: 671).

5.2.3 RISE IN REGIONAL DISPARITIES

The structural change is also having its effects on the regional disparities. The present era global knowledge economy accentuates the regional disparities. Infact the industrial modernisation has not been mitigating regional disparities but paradoxically contributing to it. With the shift towards knowledge-based economy all industrialised countries are facing this problem of regional disparities and high rates of unemployment. As according to Ulrich Hilpert,

> Policies for industrial modernization are not changing these polarizing tendencies: they are contributing to them. The orientation towards science-based industries as a means to manage economic problems introduced by changes in the world market is dependent on scientific progress. The state introduced the organization of academic research to support industrial modernization and, in consequence, eroded the situation of less prosperous regions. Thus, policies for industrial modernization have resulted in unintended consequences for the old industrial centers, and, insofar as they stem from a changing international situation, it is interesting that these unintended consequences are related to political attempts to dominate the development of the international division of labor (Hilpert, 1990: 83).

This is a paradoxical outcome of the global interconnectedness and rising regional disparities. Though knowledge economy has created new areas of prosperity but a vast chunk of society and regions remain unaffected by it.

> While the knowledge revolution is resulting in many positive outcomes there is also the emerging concern of its fostering polarised societies and regions worldwide. On the one hand, scientific and technical advances have increased the economic welfare, health, education and general living standards of a relatively small fraction of humankind to unmatched economic levels. On the other hand, the unevenness of such development among and within regions has increased. For example, 250 years ago, the difference in income per capita between the richest and the poorest countries in the world was five to one; nowadays, the difference is approaching 400 to one (Lee and Gibson, 2002: 304).

The early era concentration of industries around the national capital, Seoul and few other areas is again being reenacted in the present era shift towards knowledge-based economy in Korea. The Seoul metropolis has the most innovation actors, with 1673 research institutes (35%), Kyonggi (1139 institutes) and Inchon (252 institutes) follow Seoul in the total number of research institutes (Chung, 2002: 487). The growth in regional polarisation and uneven regional development could have serious consequences for a culturally homogenous country like Korea.

5.3 ECONOMIC CONSEQUENCES OF THE STRUCTURAL CHANGES

After the 1997 financial crisis, major restructuring of the corporate and finance sector was implemented. These measures were a clear departure from the earlier period reform measures when the Korean state attempted to improve the efficiency leaving the essential elements of the pre-existing growth regime intact. After the crisis the state showed undue enthusiasm to restructure the economy and make it more market oriented.

> In terms of corporate governance reform, the Kim Dae Jung government broke the myth of 'too big to fail': it allowed many *chaebols* to go bankrupt and requested that they restructure to focus on their core businesses. In terms of financial reforms, many banks went bankrupt and were purchased by foreigners. Most importantly, the stock market became heavily penetrated by foreign capital from 1998 onwards. The ratio of stock owned by foreigners, in terms of market capitalization, increased rapidly from 12.3 percent in 1997 to 21.9 per cent in 1999 and to 40.1 per cent at the end of 2003. Many top blue-chip companies on the list had foreign equity of over 50 per cent, such as LG Electronics (64.96 per cent), Samsung Electronics (54.68 per cent), Hyundai Motor (55.59 per cent) at the end of 2004. The importation of a large amount of foreign capital into the securities market helped the *chaebols* finance their ambitious domestic and global expansion (Wang, 2007: 1094).

The economic consequence of the structural changes is controversial among the scholars. To some scholars neoliberal restructuring was inevitable and has made Korean economy more efficient. The economy rebounded quickly and had been functioning satisfactorily after the crisis. But on the other hand critics of neoliberal restructuring such as, Crotty and Lee argue that the changes in the political economy have made Korea a low growth and low investment destination. Despite the very rapid recovery, there is concern about its sustainability and the prospects for sustained future growth (World Bank, 2000: 1). Korea being a small country with comparatively negligent natural resources, concerns about the future prospects and sustainability of the economy appears valid.

> The danger remains that investment will not return to previous levels, with deleterious effects on production and employment. Demand is weak, and the rate of credit delinquency is hitting new highs, accentuating the need for new investment. Business leaders have warned that the measures proffered by the

> government in the post-crisis period would not deliver a recovery in investment; the *chaebols* would have preferred new injections of capital rather than coercive restructuring. It remains to be seen whether Korean firms' recent surge in foreign investment – especially in China – continues, or whether the state is capable of inducing renewed investment in the domestic economy. There are also concerns that the relaxation of barriers to foreign investment has weakened the long-term growth potential of the economy (Hundt, 2005: 257).

After the crisis the financial sector was restructured. Many Korean banks were either closed or privatised. Some banks were merged to make them more efficient. A year after the restructuring process started the banking sector had seen considerable consolidation, with 16 of the 33 commercial banks and 897 of 2,070 NBFIs (Non-Banking Financial Institutions) either closed or merged. Moreover, 29 of 30 merchant banks, which were blamed for their high exposure to currency and maturity risk, had been closed. A considerable amount of public funds, 168.4 trillion won, were provided in the process of financial restructuring (Lim, 2010: 202).

Foreign shares have increased in the Korean financial institutions and corporate sector. Most of the banks in Korea are now foreign owned. During the developmental era foreign credit was welcomed but foreign investment was discouraged. The foreign direct investment was regarded as exploitative by the Koreans. With the change in policy, foreign investment is no longer restricted. The share of foreign ownership of Korea's publicly held stock increased from 15% in 1997 to 22% in 1999, 37% in 2001 and 43% in early 2004 (Crotty and Lee, 2005: 422). Foreigners have gained strong influence in important industries such as semiconductors, autos, petrochemicals, and finance. Also it is not clear that the transfer of advanced technology by foreign firms has taken place. Foreign ICT companies repatriated 98% of profit in 2002 with almost no domestic investment or R&D spending (ibid).

There had been rise in demands for share-holder-oriented corporate governance and management, in which high stock prices and larger dividends (i.e., high returns to shareholders), are considered more important than other factors in business performance. In terms of industrial innovation and potential business growth led by "committed" investment and R&D, we can also expect negative long-term effects, insofar as such trends in corporate governance and business practices "preferring profit-distribution to shareholders" are maintained (Lim and Jang, 2006: 452).

5.4 CHANGING STATE-BUSINESS RELATIONS

The state-*chaebol* nexus has also undergone huge changes. With the financial liberalisation under Kim Young Sam, the *chaebol* groups aggressively expanded and diversified their operations in fields such as steel and car manufacturing, where there was already an overcapacity. Samsung entered the car market as fifth carmaker and Hanbo entered the already saturated steel market. Thus the *chaebol*s were blamed as single major reason for the financial crisis in 1997. After the crisis there were massive corporate restructuring and "Big Deals" were implemented. According to Sook-Jong Lee and Taejoon Han (2006), 'the reforms have led to the demise of the "Korea Inc.", the symbiotic relationship between government and business that was at the core of Korea's developmental state'. The emergence of foreign businesses in the Korean economy has fundamentally altered the state-business relations. In fact, the substantial and growing foreign participation in the economy through FDI meant that the traditional government-business relations were no longer viable (Lee and Han, 2006: 322). While foreign investment acted as a disciplinary force on the *chaebols* insofar as they were forced to reduce their debt levels, the state has less influence over the owners of Korea's main industrial assets, because ownership of those assets was dispersed between the *chaebols* and foreign investors (Hundt, 2009: 111). The changes in policies and neoliberal restructuring has also provided more freedom to the *chaebols* as restrictions have been liberalised. With the liberalisation of the finance sector, corporate sector has gained independence from the state control, as it was the major tool of the developmental regime in Korea. Also the *chaebols* are now investing globally; shifting bases to lower wage locations. After the crisis, the state has been instrumental in the promotion of SMEs. This was to counter the monopolistic tendencies of the big corporate sectors in Korea and also to make economic growth much more inclusive and democratic. However, the greater role of the foreign capital and SMEs has somewhat reduced the economic concentration of *chaebols*, neither of these sets of actors can play the role of the *chaebols* over the past four decades as they are simply too well entrenched and too great in scale to be readily replaced (Hundt, 2009: 112). There are some valid concerns that Korea could not completely replace *chaebols*. Though the Korean state has shown some activeness in promotion of SMEs in the recent years as it promoted *chaebols* in the earlier era but it is difficult to conclude that Korea can effectively get rid of these business giants.

Table 6: Foreign Capital Share of Korea's Commercial Banks (as on Oct. 2003)

Name of bank	Major foreign investor	Current status
Kookmin Bank	US Capital Group (5.01%) ING (3.87%)	9.33% of Korean government share is in the process of public sale
Shinhan Holding Co.	BNP Paribas (4%)	Controls 100% of Shinhan Bank and 80% of Chohung Bank
Hana Bank	Allianz (8.16%)	Korea Deposit and Insurance Corporation is biggest share holder for 21.66%, but City Bank emerges as a new partner
Foreign Exchange Bank	Lonestar (51%) Kormertz (14.75%)	Korea Export-Import Bank controls 14%
Hanmi Bank	Carlyle Consortium (36.6%) Standard Charters (9.76%)	Carlyle Fund is in the process of selling its shares
Korea First Bank	Newbridge Capital (48.6%)	Korea Deposit and Insurance Corporation holds 51.4%, but New Bridge controls management
Woori Holding Co.	Lehman Brothers (2.8%)	Planning to privatize by selling 86.84% of share held by Saving Corporation

Source: Lee and Han, 2006: 320.

Table 7: Foreigners' share (%) of commercial banks

Name	1998	1999	2000	2001	2002	2003	2004	2005
Kookmin								
Kookmin	2.5	50.5	58.2	71.1	70.2	73.6	76.1	85.4
Jootaek	45.1	66.4	66.4					
Woori	--	0.05	16.3	0.0	0.7	4.5	11.7	11.4
Shinhan								
Shinhan	27.8	34.2	40.4	48.6	49.0	40.4	62.8	57.1
Chohung	5.8	0.4	0.2	0.3	3.1			
Hana								
Hana	18.1	26.2	32.2	52.0	--	--	--	78.2
Seoul	0.2	--	--	--	28.7	37.2	--	
SCfirst	0.1	50.99	50.99	50.99	50.99	48.56	48.56	100
KEB	34.9	23.0	34.2	34.1	27.9	71.0	72.0	74.2
Citibank	27.7	30.7	48.6	53.2	61.0	85.8	--	99.0

Source: Lim, 2010: 204.

Table 8: Economic performance after the crisis in Korea (%, $ billions)

	1993-1997	1997	1998	1999	2000	2001	2002	2003	2004
Real GDP growth	7.1	4.7	-6.9	9.5*	8.5	3.8	7.0	3.1	4.6
Consumption growth	6.5	3.2	-10.6	9.7	7.1	4.9	7.6	-0.3	0.2
Fixed investment growth	12.3	-2.3	-22.9	8.3	12.2	-0.2	6.6	4.0	1.9
Net export/ GDP	-1.1	-0.6	12.9	6.7	3.2	2.3	1.4	2.4	4.4
Government deficit / GDP	-0.0	-1.4	-3.9	-2.5	1.1	1.2	3.3	1.1	0.7
Household/ GDP	40.5 a	46.6	41.3	44.3	51.3	62.0	73.6	-- b	
Foreign reserves ($ billions)	21.7	8.9	48.5	74.1	96.2	102.8	121.4	155.4	199.1
Debt ratio in manufacturing	319.5	396.3	303.0	214.7	210.6	182.2	135.4	123.4	104.2
Ordinary profit/Sales in manufacturing	1.7	-0.3	-1.8	1.7	1.3	0.4	4.7	4.7	7.8

a Household debt in average from 1994 to 1997. b Due to the change of GDP statistics, direct calculation is impossible. (Source: Crotty and Lee, 2005: 418).

*Some scholars have calculated GDP growth for 1999 as 10.9% (Lee and Han, 2006: 306)

Table 9: Foreign capital flows in Korea after the crisis ($ billions)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
FDI inflows	3.2	6.9	8.8	15.5	15.2	11.3	9.1	6.5	12.8
Portfolio Inflows	12.6	13.2	16.5	41.7	60.1	43.9	65.4	81.6	116.2
Outflows	8.0	12.1	11.7	36.2	48.8	36.4	66.2	68.1	106.8
Net inflows	4.6	1.1	4.8	5.5	11.3	7.5	-0.8	13.5	9.4
Total (portfolio inflows + out flows)	20.6	25.3	28.2	78.0	108.9	80.4	131.6	149.6	222.9

Source: Crotty and Lee, 2005: 421.

5.5 NEW EMPHASIS ON THE GROWTH OF SME SECTOR

During the earlier period of the economic development in Korea, the state did not promote the small scale industrial units as compared to the much larger *chaebols*. While the repressed finance was channeled to the *chaebols*, the smaller industries had to depend on the curb market for finance. The *chaebols* also poached away the talented and skilled workers from the SMEs. Thus the SMEs remained disadvantaged during the developmental era. According to Sohn and Kenny,

> The Korean political economy has positively discriminated against small and medium-sized enterprises (SMEs). Until the mid-1980s, the government actively encouraged the growth of *chaebols*, while starving the SME sector of credit. Second, cultural and job security concerns limit the flow of personnel from large *chaebo*l firms to smaller entrepreneurial firms. Third, the large *chaebol* firms can do hire some of the most talented SME employees frustrating capacity building. This makes it exceedingly difficult to assemble and retain the management and technical teams necessary to build an entrepreneurial startup (Sohn and Kenney, 2007: 992).

This promotion of large *chaebols* by the state and Korea's unique high debt–high growth economy was in sharp contrast to the Taiwan model. The Taiwanese developmental state promoted SMEs and was conservative in terms of financial control and foreign borrowings. Because of the state's 'anti-big private firm' policy, and its tight control of the financial sector, the industrial structure became decentralised and enterprises largely followed the low–debt model (Wang, 2007:1091). The Taiwanese authorities remained skeptical of the benefits of opening the finance sector to the volatile capital flows. On the eve of the financial crisis, Taiwan thus enjoyed strong trade surpluses rather than current account deficits and, consequently, large international reserves (Weiss, 2000: 38). This again reflects that that there no single developmental state model.

The "growth first and distribution later policy" of the developmental state discriminated against the SMEs. However since the financial crisis the state has shown activeness in the promotion of SMEs.

> Substantial efforts were made by the administrations of Kim Dae-jung (1998-2003) and Roh Moo-hyun (2003-2008) to support SMEs and facilitate the emergence of venture businesses. Instead of singling out *chaebols* for special support, the Korean government set aside R&D funds for SMEs and requested *chaebols* to work with them. As for venture businesses, the passing of the 'Special Law for the Promotion of Venture Business' in 1997 allowed the Korean government to offer qualified venture firms a ten-year programme of tax incentives and exemptions from corporate laws. The law also provided the legal foundation for start-up investment companies (SICs) registered with the Small and Medium Business Administration (SMBA) to partner with government, institutional investors and corporations to form joint public-private venture capital companies and thus provide funding for start-up companies. The number of SICs peaked at 147 in 2000 but had dropped to 117 in 2003. The number of venture firms increased from 2042 in 1998 to a peak of 11,392 in 2001 and then dropped to 7702 in 2003. The number of information technology SMEs increased from 12,106 in 1999 to 20,243 in 2003. In 2004, SMEs contributed to 27.3 percent of total IT production and 14.5 percent of IT exports. (Chu, 2009: 292-293).

These substantial efforts by the Korean state to promote SMEs clearly reflect a profound change in the policies. During the earlier period the state had shown more enthusiasm in the promotion of big conglomerates at the cost of smaller ones. The change in the policies is also an effort to make Korean economic development more participatory and democratic.

5.6 EMERGING SOCIAL WELFARE MEASURES

With the neoliberal restructuring of the economy, new problems emerged in Korea. The state took the responsibilities for mitigating the hardships faced by the people in Korea by devising welfare measures. Kim Dae Jung administration took several initiatives to ensure social safety nets for the Korean masses. The Tripartite agreement which was considered as a "social pact" enabled the Kim administration to enact measures to implement social-welfare policies. To keep the social pact of February 1998 alive, he channeled U.S. $ 11 billion from the budget to fight unemployment in 1998 alone, with a third of the fund allocated to pay for unemployment compensation and minimum living expenses (Song, 2003: 421). The Social Welfare Reforms of February 6, 2008 Agreement had following provisions:

1. Reform of Social Security System

1) Increase of social welfare expenditure
2) Reform of the administrative system of social security
3) Increase in participation of labour and business representatives in social welfare reform
4) Unification of health insurance programs
5) Reform of national pension fund operation
6) Tax reform

2. Unemployment Measures

1) Expansion of employment insurance benefit and coverage
2) Livelihood protection for the retired and unemployed
3) Extension of active labour market policies

(Source: Kim, 2010: 178)

In 1999, NBLS (National Basic Livelihood Security) Act was enacted which became the corner stone of the universal social security system in Korea. The areas of social policy that underwent the most sweeping changes under the DJ administration are social insurance (National Pension and Health Insurance) and social assistance (unemployment policy) (Kim Yeon-Myung, 2001: 179).

> The Kim Dae Jung government placed the structural foundations of a social welfare system in Korea, particularly of social insurance and public assistance in the economically difficult years after the financial crisis. It was an epoch-making achievement, demonstrating the case where global integration brought about the expansion of social protection.......The Rho government seems to prefer expanding the SRA (Self-Reliance Assistance) services for those employable poor, NBLS (National Basic Livelihood Security) system instituted, the danger of poverty trap becomes a policy concern. The SRA programme is more labour intensive and more expensive that cash provision, but it is pursued as a human capital investment and as an effort to create employment (Lee, 2004: 297).

The NBLS Act had wide-ranging effects, as the minimum livelihood security came to be recognised as a universal right. The situation of implementation shows that the standard cash benefits (for a family of four, monthly amount) increased 2.5-fold from 330,000 won in 1997 to 842,000 won in 2001, and that almost proportionately, the livelihood assistance and security budget expanded from 900 billion won to 2.7 trillion won (Kim Jo-Seol, 2004: 162).

Besides social security measures, the state in Korea has also started training and vocational programmes to check rising unemployment. As has already been stated that during the earlier period *chaebols* took the responsibility of training the unskilled workers but after the crisis they have cut-down the training programmes. Under these circumstances, the Korean state has undertaken several measures for training the unskilled workers.

> Several factors have led to the reconstruction of the relationship of the state to training. Key amongst these has been the reduction in recruitment and training by *chaebol* as a result of their restructuring and the loss of the commitment of a job for life. A consequence of these changes has been that the focus for training has become the SME sector, as well as casualised workers. However, the SME sector's record in training has been poor because as we have seen, of a lack of funds and also because this has traditionally been a low-skill sector in South

> Korea. These factors have led paradoxically to greater state involvement in vocational training. (Park, 2007: 426).

The neoliberal restructuring in Korea has thrown new challenges, directly affecting the socio-economic conditions of the people. The state intervention in this field again validates the fact that neoliberal state is not a minimalist state. The emerging welfare regime in Korea needs to formulate more sustainable welfare policies. In this regard Hye Kyung Lee says,

> What Korea has to consider in designing the new sustainable post-crisis welfare system, are three broad lines of forces. One is global integration of economy, which requires labour market flexibility and income inequality, the second is population ageing and a low economic growth rate, and third is changes in family structure and increasing women's labour force participation. All the forces interrelated and work simultaneously. Iverson's and Wren's trilemma of service economy is apparent now in Korea. Full employment, redistribution, and restricted financing cannot be pursued at the same time. The labour market in Korea today houses about half of workers as irregular workers, demands of women for labour market participation and gender mainstreaming is ever increasing, and rapid population ageing and low fertility rate is the reality today (Lee, 2004: 298).

After the financial crisis, the Kim Dae Jung administration acknowledged that there was an urgent need to institute social security measures. When the economy appeared to have turned corner in 1999, the government declared its commitment to productive welfare as the third pillar of national governance together with democracy and market economy (Lee, 2004: 293). As a result there had been increase in the government budgetary expenditure towards social security measures in the recent years.

Table 10: Trends in Korea's public social expenditure as a percentage of the total government budget, 2002-2006

Year	2002	2003	2004	2005	2006
% of total budget	19.9	20.2	24.5	26.7	27.9

(Source: Park, 2008: 6)

Table 11: The Coverage Rates of Social Insurance by Household Income (2002, %)

Social Insurance		Total				
		Population or Employees	Non-poor	Low income	Poor 1	Poor 2
Pension Program	National pension	55.4	58.2	30.0	36.7	25.6
	The pension program for civil servants/ military personnel/ private school teachers	5.3	5.9	0.4	0.3	0.5
	Uninsured	39.3	35.9	69.6	63.0	74.0
	(number)	12,265	10,967	1,298	495	803
Industrial Accident	Insured	76.5	79.0	50.3	59.7	41.3
	Uninsured	23.5	21.0	49.7	40.3	58.7
	(number)	7,298	6,600	698	331	367
Employm-ent Insurance	Insured	45.0	47.2	21.1	27.7	14.5
	Uninsured	55.0	52.8	78.9	72.3	85.5
	(number)	7,225	6,572	653	318	335
Health Insurance	Insured (occupation-based)	53.1	55.7	38.0	36.9	38.5
	Insured (region-based)	46.5	44.1	60.8	61.9	60.2
	Uninsured	0.4	0.2	1.2	1.2	1.2
	(number)	21,254	17,927	3,327	1,092	2,235

(Continued to next page)

1) Non-poor: members of households over 60% of median income.
2) Low income: members of households at or below 60% of median income.
3) Poor 1: members of households at or below 60% of median income, but over the national minimum cost of living.
4) Poor 2: members of households with income at or below the national minimum cost of living (official poverty line).

(Source: Kim, 2010: 165)

Nevertheless, neoliberal restructuring has brought forth new forms of class struggles beyond what were originally the traditionally militant and unionised sectors (Gray, 2008: 491). The rise in unemployment and casualisation of labour in Korea is really worrisome as this could have serious consequences. The rise of welfare measures is an effort by the state to mitigate social and economic fallouts of the neoliberal restructuring in Korea. The aging population and larger participation of the women in the labour market require that Korea needs to formulate more effective social security measures. With the shift towards knowledge-based economy, state has also initiated training programmes for the unskilled workers. The emphasis on the promotion of SMEs and venture capital in the recent years is also an attempt to make the economic development in Korea participative and democratic.

CHAPTER 6

CHAPTER 6: CONCLUSION

The developmental state in Korea rose under the leadership of Park Chung Hee in a particular historical-political context. Park presided over the coup in 1961 and established a strong state which was able to discipline the working class and corporate groups. The pragmatic policies adopted during Park regime made Korea an economic success story. In fact, Park's policy of export led industrialisation was an emulation of the Japanese export led growth strategy. His predecessor, the then Prime Minister, Chang Myon had also tried to make some significant changes in the political economy. Although the Chang Myon interregnum was not given much attention in the initial studies of the Korean "miracle", the more recent analyses have shown that despite the tenuous hold that he had on power, Chang in fact attempted in his short tenure many of the same kinds of reforms that Park initiated more successfully in later years (Chibber, 1999: 317).

'Developmental State' in Korea evolved due to the needs of late industrialisation where state made economic development its top priority. However, the 'growth-first' strategy adopted by the developmental state started to malfunction with the end of Cold War, economic globalisation, rise of knowledge economy and changing global division of labour with the rise of new manufacturing hubs. On the domestic front democratic consolidation against the authoritarian regime, corrupt state-business nexus and rising regional disparities have played a major role in the transformation of the developmental state in Korea.

The developmental state in Korea has transformed in a big way in the ten years period following the 1997 Asian Financial crisis, which is from 1997 to 2007. Since the crisis several changes have been brought about in the financial structure, corporate sector, bureaucratic apparatus and the larger political system. The IMF bailout package after the crisis came along with conditionalities of restructuring the economy. Reform measures had six major components: macroeconomic policy, trade and capital account liberalisation, corporate governance and structure, labour market reform, financial sector restructuring and public sector reform (Jung, 1999: 40). However IMF intervention could not be attributed as the sole cause of the transition of the Korean developmental state towards neoliberal policies. To castigate the IMF for the reforms is to ignore the point that Korean officials were not only highly complicit in the implementation of the reforms; they were more willing to accept the chance to refashion the national political economy in line with the reforms (Hundt, 2005: 248). The state had been making changes in the political economy towards neoliberal orientation since 1980s itself, owing to several domestic and international factors as had been discussed in chapter 3. The IMF intervention and later neoliberal restructuring has merely completed the process which started two decades earlier. The *segyehwa* drive of the early nineties finally culminated in the full fledged neo-liberal restructuring of the economy after the crisis.

As has already been stated, that there was a consensus in making in Korea in favour of neoliberal reforms and demands for massive restructuring of the economy was emanating from the endogenous sources. Democratic consolidation and the rising regional disparities were eroding the insulated autonomy of the developmental state. The 'corrupt' nexus between the state and the corporate was singled out as the major reason which led to the financial crisis. After the crisis, there had been a strong transformative movement among the elite bureaucrats and economic experts in Korea advocating the Anglo-American economic system, which was in fact a more or less "idealised" picture (Lim and Jang, 2006: 447). Korean debate about transforming the developmental state was also influenced by the "lost decade" in Japan, where developmental state could not make substantial changes. In the post crisis period, Korean public opinion was very much concerned with the ideas such as 'Present of Japan is the future of Korea'.

The structural changes in the global economy with the end of Cold War, rise of knowledge-based economy and changing global division of labour were making the developmental state policies unviable. The *chaebols* were also pressurising the state to liberalise financial market and industrial regulations in their efforts for global expansion and to integrate with the global network of R&D. Under the local political pressures and the need to ward off international criticism, new resources emerged in place of the old developmental structures (Chu, 2009: 294).

To the critiques of neoliberal restructuring, the external crisis that brought the IMF to Korea was caused by the deconstruction of the traditional model, not its inherent flaws, but the model was suddenly declared to be non-reformable in principle (Crotty and Lee, 2002: 670). According to Crotty and Lee the neoliberal restructuring of the economy has pushed Korea into a low investment/low growth trajectory. But despite what critics would say, it is also a fact that Korea Inc. had started to malfunction much before the financial crisis. The mercantilist-developmental strategies were failing in the changing scenario. It became clear that old ways of operating the economy and corporations cannot work anymore in the new global environment (Jung, 1999: 36). The economic crisis of 1997 exemplified this fact and casted serious doubts on the viability of the old developmental state policies.

The financial crisis brought out the relative weaknesses of the Korean political economy to the fore. This also showed that prudential supervisory and regulatory systems to oversee financial institutions had not been properly established, while the Kim Young Sam government pursued the financial liberalisation drive (Jung, 1999: 34). The main point is that when left to their own devices, unregulated capital markets in the form of massive movements of short-term capital flows end up cannibalising not just the 'national' economy but ultimately the very basis for the financial market's global operation (Weiss, 2000: 41). Therefore there is a need to devise regulatory mechanisms to control the flow of short term, speculative finance in the country. These short term loans make the developing as well as developed countries vulnerable.

The study proves that though neoliberal restructuring is inevitable for the present era global knowledge-based economy, but this does not diminish the role of the state in the classic neoliberal terms. The role of the state in the market process has become rather discreet or indirect. The changing global economy is highly competitive and volatile, which requires constant support and regulations of the state. Furthermore, it must also be emphasised that essentially neoliberal states are unlikely to completely renounce strategic activism and market-distorting industrial policies; the 'pure' neoliberal state never has and most probably never will exist (Pirie, 2005: 40). The restructuring process, in Korea or the other developmental states could better be understood in terms of adaptability of the states to the changing global political economy and does not mean complete withdrawal of the state from the developmental goals.

> The reconfiguration of the developmental state today and into the future does not mean its obsolescence. The developmentally oriented state continues to play important roles in East Asia's economic, social, and political development. One should not equate liberalization, globalization, transnational harmonization, or economic policy convergence with the retreat of the state from the tasks of promoting national development. The developmental states in Japan, Korea, Taiwan and China continue to experiment with industrial policies, R&D policies, social welfare reforms, and economic policy more generally in creative ways, albeit under many more constraints (Wong, 2004: 357).

The case study of the role of the state in the techno-scientific development exemplifies the fact that the neoliberal-minimalist state is a myth. After the 1997 crisis, the capacity of the private sector to invest in R&D sector was severely constrained, the state quickly made several policy changes to support industrial innovations and techno-scientific development. The Korean state has reconfigured to meet the new challenges. The economic development continues to be main priority of the state but the mode of intervention has transformed to a great extent.

> Critics argue that the Korean government has changed 'from a developmental state model into a (neoliberal) post-developmental state rather than a neoliberal model based on laissez-faire during the IMF intervention'. The ultimate goals of such a post-developmental state are to institute the rules of market and promote the export of domestic companies. Through the economic crisis, the developmental regime changed into a 'neo-developmental regime', under which the relationship of business and the government 'became a "collaborative symbiosis" featuring 'a greater privatization of state-owned enterprises' (Cho, 2008: 84).

There is however no unanimity amongst the scholars on the future prospects of Korea as a centre of capitalist accumulation. The changing global economy which is much more knowledge based and requires massive funding and global networking for R&D will definitely test the capabilities of the state in Korea. The 'catching-up' exercise was marvelous in Korea but 'keeping-up' with the rest of the OECD countries in the coming future shall depend on how effectively Korea improves its capabilities in the techno-scientific development.

Before the crisis, the Korean development model was preoccupied with economic nationalism, which favoured foreign borrowing over foreign investment (Wang, 2007: 1094). After the crisis foreign capital has increased in stock market, many banks are now owned by foreigners and many top Korean companies have foreign equity over 50 percent. Nevertheless, Koreans are fiercely nationalists. Nationalist ethos drives everyday life in Korea. It is not just about ideology or myth; rather, nationalism is a moral imperative or a norm which every Korean must follow and adhere to. The notion of nationalism is both powerful and omnipresent in Koreans' everyday life (Cho, 2008: 85). The future of the Korean economic development shall be the testing ground for Korean nationalist ethos. In spite of all the changes in the past several years, by all measures and accounts, Korea remains far from the kind of open and liberal society seen in the West (Lee and Han, 2006: 323).

Changes in the state-society relations have made the state more susceptible to the social pressures. The insulated autonomy of the developmental state had been eroded in due course. The militant labour movements, democratic consolidation had brought about significant changes in the *jeongkyung yuchak* or the corrupt state-business nexus. The neoliberal restructuring following the crisis has brought about several changes in the socio-economic realm. With the liberalisation of the labour laws, the post-crisis period witnessed massive layoffs and rise in unemployment. The earlier era 'jobs for life' has vanished away. The number of temporary workers has increased significantly after the crisis. The gender biasness of the neoliberal policies is also evident from the fact that women workers are employed more as non regular workers. The shift towards knowledge based industries has also increased the disparities between skilled and unskilled workers. The social role of the *chaebols* in skill formation and training has been greatly reduced. There is also a fear of rising regional disparities. The earlier era, concentration of industries in an around Seoul and other metropolitan areas is being reenacted in the present era knowledge based economy. These trends could be dangerous for Korea, where regional antagonism is well known.

After the crisis, the state has been formulating new mechanisms to deal with these developments. The state had been promoting SMEs and venture capital. As against the earlier era 'top-down' approach to the economic development, there are efforts to build, 'bottom-up' economic development. The state has also enhanced the social security measures as to create safety nets, as has been discussed in Chapter 5. The measures towards techno-scientific development have greatly increased after the crisis. Presently Korea's expenditure on R&D happens to be one of the highest in the world. There are also significant efforts to make the research university based and strengthen university-industry linkages. There are also efforts to mitigate regional disparities by relocating GRIs to other regions of the country and to promote more balanced national development.

In order to have sustainable economic growth the Korean state may take into consideration the following points:

1) There is a need to closely supervise the flow of short-term, speculative capital and establish a more prudential supervisory and regulatory system to oversee financial institutions.

2) To remain competitive in the global market Korea needs to continue and give more emphasis on the techno-scientific development.

3) The social-security measures have to be further strengthened, keeping into consideration the population ageing, casualisation of labour as a result of neoliberal policies and greater participation of women in the labour market.

4) Regional disparities need to be checked through decentralisation and shifting of industrial bases to the comparatively less industrialised regions, which had faced discrimination during the earlier period.

5) Korea needs to promote SMEs equally as it promoted *chaebols* in the past. The Taiwanese model of development could be the reference in this context.

The above mentioned suggestions are not conclusive but few policy alternatives which Korea needs to consider. The 'catch-up' in Korea was definitely marvelous but 'keeping-up' with rest of the OECD countries shall be a challenge.

REFERENCES

1) Amsden, Alice.H.(1989), *Asia's Next Giant*, New York:Oxford University Press.

2) Amsden, Alice.H.(1994) "Why Isn't the Whole World Experimenting with the East Asian Model to Develop?: Review of The East Asian Miracle", *World development,* 22, (4): 627-633

3) Chandra, Vandana (eds) (2009), *Innovations and Growth: Chasing A Moving Frontier*, OECD/World Bank.

4) Chang, Ha-Joon (2002), "Breaking the mould: an institutionalist political economy alternative to the neo-liberal theory of the market", *Cambridge Journal of Economics*, 26: 539-559.

5) Cheon, Lee Byeong (2006), "Political Economy of Korean Development after Liberation: A Critical Reflection", *Korea Journal*, Autumn, 2006: 49-79.

6) Cherry, Judith (2005) "'Big Deal' or big disappointment? The continuing evolution of the South Korean developmental state", *The Pacific Review*, 18(3): 327-354

7) Chibber, Vivek (1999), "Building a Developmental State: The Korean Case Reconsidered", *Politics and Society*, 27(3): 309-346.

8) Chibber, Vivek (2002), "Bureaucratic Rationality and the Developmental State", *American Journal of Sociology,* 107(4): 951-989.

9) Cho, Younghan (2008), "The national crisis and de/reconstructing nationalism in South Korea during the IMF intervention", *Inter-Asia Cultural Studies*, 9(1): 82-96.

10) Chu, Yin-wah (2009), "Eclipse or reconfigured? South Korea's developmental state and the challenges of the global knowledge economy", *Economy and Society*, 38(2): 278-303

11) Chung, S. (2002), "Building a national innovation system through regional innovation systems", *Technovation*, 22: 485-491.

12) Crotty, James and Lee, Kang –Kook (2002), "A political- economic analysis of the failure of neo-liberal restructuring in post-crisis Korea", *Cambridge Journal of Economics*, 26: 667-678.

13) Crotty, James and Lee, Kang –Kook (2005), "From East Asia "Miracle" to Neo-liberal "Mediocrity": The Effects of Liberalisation and Financial Opening on the Post crisis Korean Economy", *Global Economy Review*, 34(4): 415-434.

14) Cumings, Bruce (1984) , "Legacy of Japanese colonialism in Korea", in Ramon H. Meyers and Mark R Peattie (eds), *Japanese colonial empire, 1895-1945* , Princeton University Press.

15) Cumings, Bruce (1998), "The Korean Crisis and the End of 'Late' Development", *New Left Review*, a (231): 43-72.

16) Evans, Peter (1989), "Predatory, Developmental and Other Apparatuses: A Comparative Political economy Perspective on Third World State", *Sociological Forum*, 4(4): 561-587.

17) Evans, Peter (1995), *Embedded Autonomy: States and Industrial Transformation*, Princeton University Press.

18) Gray, Kevin (2008), "The Global Uprising of Labour? The Korean Labour Movement and Neoliberal Social Corporatism", *Globalisations*, 5(3): 483-499.

19) Hemmer, Christopher and Peter J. Katzenstein (2002) "Why Is There No NATO in Asia? Collective Identity, Regionalism, and the Origins of Multilateralism", *International Organization*, 56(3): 575-607.

20) Hilpert, Ulrich (1990), "Techno Industrial Innovation, Social development, and State Policies", *International Political Science Review*, 11(1): 75-86.

21) Hugo, Radice (2008), "The Developmental State under Global Neoliberalism", *Third World Quarterly*, 29(6): 1153-1174.

22) Hundt, David (2005), "A Legitimate Paradox: Neo-liberal Reform and the Return of State in Korea", *Journal of Developmental Studies*, 41(2): 242-260.

23) Hundt, David (2009), *Korea's Developmental Alliance: State, capital and politics of rapid development*, Routledge: London and New York.

24) Hwang, Kelly K. (1996), "South Korea's Bureaucracy and Informal Politics of Economic Development", *Asian Survey*, 36(3): 306-319.

25) Johnson, Chalmers (1982), *MITI and Japanese Miracle: The Growth of Industrial Policy 1925-1975*, Stanford University Press, Stanford

26) Johnson, Chalmers (1999), "The Developmental State: Odyssey of a Concept", in Meredith Woo-Cumings(ed), *The Developmental State*, Cornell University Press.

27) Jung, Ku-Hyun (1999), "National governance in South Korea and developing new state-business relations in the post crisis era", *Global Economic Review*, 28(4): 30-49.

28) Kang, David C. (2002), "Bad Loans to Good Friends: Money Politics and the Developmental State in South Korea", *International Organization*, 56(1): 177-207.

29) Kim, Eun Mee (1997), *Big Business, Strong State: Collusion and Conflict in South Korean Development, 1960-1990*, State University of New York Press, Albany.

30) Kim, Linsu (2004), "The multifaceted evolution of Korean technological capacities and its implications for contemporary policy", *Oxford Developmental Studies*", 32(3): 341-363.

31) Kim, Jo-Seol (2004), "Formation and Development of the Welfare State in the Republic of Korea: Process of Reform of the Public Assistance System", *The Developing Economies*, XLII-2: 146-175.

32) Kim, Pan Suk (2000), "Administrative Reform in the Korean Central Government: A Case Study of the Dae Jung Kim Administration", *Public Performance & Management Review*, 24(22): 145-160.

33) Kim, Yeon-Myung (2001), "Welfare State or Social Safety Nets? : Development of the Social Welfare Policy of the Kim Dae-Jung Administration", *Korea Journal*, September: 169-201.

34) Kim, Yeong-Soon (2010), "Institutions of Interest Representation and Welfare State in Post-Democratization Korea, *Asian Perspective*, 34(1): 159-189.

35) Kim, Yun Tae (1999), "Neo liberalism and decline of the developmental state, *Journal of Contemporary Asia,* 29(4): 441-461

36) Kim, Yun Tae (2005), "Djnonics and the transformation of developmental state", *Journal of Contemporary Asia,* 35(4): 471-484

37) Kohli, Atul (2004), *State-Directed Development: Political Power and Industrialization in the Global Periphery*, Cambridge University Press.

38) Kohli, Atul. (1994), "Where Do High Economic Growth Come From: The Japanese lineage of Korea's "Developmental State" ", *World Development*, 22(9): 1269-1293.

39) Kyung-Sup, Chang (1999), "Compressed modernity and its discontents: South Korean society in Transition", *Economy and Society*, 28(1): 30-55.

40) Lee, Chang-Won (2004), "A critical review of the administrative reforms in the Korean central government: A case study of the Kim Dae-Jung administration", *International Review of Public Administration*, 9(1): 113-120.

41) Lee, Hye Kyung (2004), "Welfare Reforms in Post Crisis Korea: Dilemmas and Choices", *Social Policy and Society, Cambridge University Press*, 3(3): 291-299.

42) Lee, Kong-Rae (2001), "From Fragmentation to Integration: Developmental Process of Innovation Clusters in Korea", *Science Technology and Society: Sage Publications,* 6(2): 305-327

43) Lee, Sang Kyu and David V. Gibson (2002), "Towards knowledge-based economy in Korea", *International Journal of Technology, Policy and Management*, 2(3): 301-314.

44) Lee, Sook-Jong and Han, Taejoon (2006), "The demise of "Korea, Inc.": Paradigm shift

in Korea's developmental state", *Journal of Contemporary Asia*, 36(3): 305 -324

45) Lee, Yeon-Ho (2000), "The failure of the weak state in economic liberalisation: liberalisation, democratisation and the financial crisis in South Korea", *The Pacific Review*, 13(1): 115-131.

46) Leftwitch, Adrian (1995), "Bringing Politics Back In: Towards a Model of the Developmental State", *Journal of Developmental Studies*, 31(3): 400-427.

47) Lim, Haeran (2010), "The Transformation of the Developmental State and Economic Reforms in Korea", *Journal of Contemporary Asia*", 40(2): 188-210.

48) Lim, Hyun-Chin and Jang Jin Ho (2006), "Between Neo-liberalism and Democracy: Transformation of the developmental state in South Korea", *Development and Society,* 35(1): 1-28.

49) Lim, Hyun-Chin and Jang, Jin-Ho (2006), "Neo-liberalism in post-crisis South Korea: Social conditions and outcomes*", Journal of Contemporary Asia,* 36(4): 442-463.

50) Lim, Hyun-Chin and Paek Woon-Seon (1987), "State Autonomy in Modern Korea: Instrumental Possibilties and Structural Limits", *Korea Journal*, Nov (87): 19-32.

51) Mathews, John A. (1998), "Fashioning a new Korean model out of the crisis: the rebuilding of institutional capabilities", *Cambridge Journal of Economics*, 22:747-759.

52) Minns, John (2001), "Of Miracles and Models: The Rise and Decline of the Developmental State in South Korea", *Third World Quarterly*, 22(6): 1025-1043.

53) Moon, Chung-In and Yong-Cheol Kim (1996), "A Circle of Paradox: Politics and Democracy in South Korea" in Leftwitch, Adrian (eds), *Democracy and development: Theory and Practice*, London: Cambridge Polity Press.

54) Park, Hun Joo (2002), "After dirigisme: globalisation, democratisation, the still faulted state and its social discontent in Korea", *The Pacific Review*, 15(1): 63-88.

55) Park, Insub (2007), "The labour market, skill formation and training in the 'post-developmental, state: the example of South Korea", *Journal of Education and Work*, 20(5): 417-435.

56) Park, Yong Soo (2008), "Revisiting the welfare state system in the Republic of Korea", *International Social Security Review*, 61, 2/2008: 3-19.

57) Pirie, Iain (2008), *The Korean Developmental State : From dirigisme to neo-liberalism,* Routledge, London and New York

58) Pirie, Iain (2005), "Better by design: Korea's neoliberal economy", *The Pacific Review*, 18(3): 355-374.

59) Pirie, Iain (2005), "The new Korean state", *New Political Economy*, 10(1): 25-42

60) Powell, Walter W. and Kaisa Snellman (2004), "The Knowledge Economy", *Annual Reviews*, 30: 199-220.

61) Sen, Amartya(1997), "Human rights and Asian values: what Lee Kuan Yew and Le Peng don't understand about Asia", *The New Republic,* 217 (2-3) 33(8):1-9.

62) Sohn, Dong-Won and Martin Kenney (2007), "Universities, Clusters, and Innovation Systems: The Case of Seoul, Korea", *World Development*, 35(6): 991-1004.

63) Song, Ho Keun (2002), "The Birth of a Welfare State in Korea: The Unfinished Symphony of Democratization and Globalization", *Journal of East Asian Studies*, 3(3): 405-432.

64) Uttam, Jitendra (2006), "Korea's New Techno-Scientific State: Mapping a Strategic Change in the Developmental State", *China Report: Sage Publications*.42 (3): 257-268.

65) Varshney, Ashutosh (2000), "Why haven't poor democracies eliminated poverty?", *Asian Survey,* 40(5): 718-736

66) Wade, Robert (1990), *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton University Press, New Jersey.

67) Wang, Jenn-Hwan (2007), "From technological catch-up to innovation-based economic growth: South Korea and Taiwan compared", *Journal of Development Studies*, 43(6): 1084-1104.

68) Wong, Joseph (2004), "Adaptive Developmental State in East Asia", *Journal of East Asian Studies*, 4(2004): 345-362.

69) Weiss, Linda (1997), "Globalization and the Myth of the Powerless State", *New Left Review*, 1/225, Sep-Oct.

70) Weiss, Linda (2000), "Developmental states in transition: adapting, dismantling, innovating, not 'normalizing", *The Pacific Review*, 13(1): 21-55

71) Woo-Cumings, Meredith (1999), *The Developmental State*, Cornell University Press.

72) World Bank (1993), *East Asian Economic Miracle: Economic Growth and Public Policy*, Oxford University Press.

73) World Bank (2000), *Republic of Korea: Transition to a Knowledge-Based Economy*, World Bank.

74) Yim, Deok Soon and Wang Dong Kim (2005), "The Evolutionary Responses of Korean Government Research Institutes in a Changing National Innovation System", *Science, Technology & Society* 10(1): 31-55.

INTERNET SOURCES:

1) Ministry of Education, Science and Technology, Korea
URL:http://english.mest.go.kr/web/1750/site/contents/en/en_0240.jsp, Accessed on 27 Feb, 2011.

2) Ministry of Science and Technology, Korea
URL: http://park.org/Korea/Pavilions/PublicPavilions/Government/most/index.html, Accessed on 24 April, 2011.