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<https://doi.org/10.15017/2004994>

出版情報：韓国研究センター年報. 17, pp.86-95, 2017-03-31. Research Center for Korean Studies,
Kyushu University

バージョン：

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Neoliberal Convergence and the Transformation of the Korean Developmental State

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Is neoliberal globalisation a relic of the past? Do the surprising Brexit vote and the election of Donald Trump prognosticate the crisis of the neoliberal globalisation era? The consequences of neoliberal globalisation on the late developed countries should be reconsidered before moving into the argument over recent phenomenon.

Neoliberalism, of which origin is traced back to the 1970s', is delineated as follows: "the inefficiency and/or counter-productiveness of state intervention"¹⁾ and the market-supreme tendency which includes the free market and international free flow of capitals. When we say, on the other hand, neoliberal globalisation, it has the broad definitions.

Neoliberal globalisation could be defined in terms of both economically and political dimension. It is the economical in the sense that it has accelerated the capital interconnection among states through the free market-oriented international tendency. The political aspect of neoliberal globalisation has provoked the controversy centred on the convergence of policies in the neoliberal globalisation era. This political controversy would be divided into two dimensions: the evaluation of the impact of the global economy towards the domestic political-social nexus, and convergence of the economic policy among states. As for the former discussion, in other words, as for the domestic impact of neoliberal globalisation, it is about whether or not neoliberal globalisation has diminished the state autonomy in the field of economic policy, or the question in the durability of the developmental state. The latter is, apart from the domestic complex between the state and society, the discussion about the contents and goal of the policy.

Neo-Gramscian scholars identify neoliberal globalisation with global capitalism which provokes global connection of production and finance relating to the Gramscian notion of hegemony and the class²⁾.

1) Chang, H. J. (2003), p.36.

2) As for neo-Gramscian perspectives, see the works of Robert Cox, Stephen Gill, William Robinson. Some scholars deny this neo-Gramscian notion of globalisation : Thomas Janoski claims that globalisation is not the hegemonic phenomenon in his book *The Handbook Of Political Sociology: States, Civil Societies, And Globalisation*, 2005, Cambridge University Press.

Based on these discourses, this paper assumes that neoliberal globalisation could be recognised as the global ideological tendency that explicitly and implicitly has to some extent converged the state on neoliberalism. Various evaluations for neoliberal globalisation have provoked the controversy surrounding the transformation of the state. The economic development and the formation of the Korean Developmental State could be the centre of this issue.

This paper is aimed at examining the discussion whether the form of the state has been converged by neoliberal globalisation, seeing the dismantlement of the Korean developmental state as the consequence of liberalization after the 1997s' Asian economic crises. This paper also intends to briefly consider whether or not the Korean developmental state has integrated into the neoliberal globalisation rather than detailedly describing the process of this transformation.

First of all, it will briefly survey the core features of the Korean developmental state formulated especially by the state-centric institutionalists. It then turns to examine the dismantlement of the Korean developmental state. Finally, it will consider the impact of neoliberal globalisation on the Korean developmental state.

1. The developmental State in the state-centric institutionalism

The developmental state (DS) has been introduced and defined by several ways to describe the distinctive processing of economic achievements in the East Asia countries: Japan, South Korea and Taiwan, in which all of them has achieved the rapid economic growth. Charlmers Johnson(1987), who introduced the notion of the DS, relates it to authoritarian capitalist regime and emphasises the political-economic nexus by pointing out the diversities among the Japanese, Korean and Taiwanese developmental states. It should be noted that his research cannot be underestimated when we discuss the diversity of capitalism³⁾.

Alice Amsden(1989: 79), of which researches are categorized as the state-centric approach, characterizes the governments of the DS into three aspects: "Planner" as an organizer of the economic growth, its ability to stabilize the macroeconomic policies, and as "the growth momentum itself". Amsden(1989) argued that until 1967, when the second five-year plan was introduced, the Korean government had intervened in the realm of the entrepreneur tasks such as finding business opportunities, gaining financial resources

3) As for varieties of capitalism, Hall and Soskice classified the characteristic features of each country's capitalism.

and designing the business plan⁴⁾. The DS had controlled the *Chaebol* and exerted the authority to allocate accumulated capitals in order to achieve the economic growth. This superior-subordinate relationship between the state and business changed to be more collective after 1967.

On the other hand, according to Linda Weiss(2003: 247), the key notion of the DS, can be extracted as follows: “transformative goals, a pilot agency, and institutionalised government-business cooperation”. Richard Stubbs(2009: 2) also extracts the nature of the DS as follows: the state, which should guarantee the right of private property and the market system, “intervened in the economy to guide and promote economic development”⁵⁾. In these senses, it could be noted that one of its central feature is the state autonomous ability to lead the market and to allocate the capitals in order to promote the economic development.

Peter Evans(1995) also succeeded in conceptualizing the features of the DS. From the perspective on the bureaucracy–the society nexus, he argued that the distinctive nature of the developmental state can be explained by “Embedded autonomy”. According to Evans, to be the developmental state, the state not only has the autonomous power over the internal social group (the insulation from society) but at the same time should be bind to the society, or ‘Embedded[ness]’ (Evans,1995:12). Evens emphasises the bureaucratic institution as the source of the state autonomy. This ‘embeddedness’ provides the state to “institutionalized channels for the continual negotiation and renegotiation of goals and policies” (Evans,1995:12). Thus, Evans argued that the nature of the developmental state should be understood from both the bureaucratic dependant ability to purse the political goal and also its capacity to carry out “the collective action” with society. The nexus between the state and society, according to Evans, can be examined by “institutionalized sets of relations” (Evans,1995:12).

As seen above, the Korean developmental state has been broadly conceptualised by analytical objects of scholars. It is, however, assumed that the discussion surrounding the definition of the Korean DS is not conducive to deliver the consequence of neoliberalism. The controversy is centred more on how we understand the dismantlement of the old Korean DS in neoliberal globalisation.

Scholars, who are described as ‘globalist’, claim that not only the role of the state and autonomy over the economic policy but its authorities are reduced by globalisation. This position eventually tends to conclude “the end or decline of the nation-state” (Weiss, 1998:194). Before turning to this discourse, it should be briefly considered how the Korean DS was changed after liberalization and reforms from the early 1990s’ to early 2000s’.

4) She points out that the state’s driving forces made significant contribution in heavy industries(Amsden, 1989: 81).

5) As for other conceptualization of the developmental state, Onis, Z., (1991:p.120) divided the DS into the three elements: the relative high degree of “bureaucratic autonomy and capacity”, the public-private cooperation and “the single-mined” ability to achieve the economic growth.

2. What happened to the Korean Developmental State?

2.1. The reforms before and after the 1997's crisis.

Neoliberal scholars tend to claim that the 1997's crisis was caused because of the Korean style of capitalism, or crony capitalism and improperly regulated financial sectors. The Keynesian economists, such as Chang Ha Joon, criticize this neoliberal view of explanations and they maintain that the root of the crisis can be traced back to liberalisation in the monetary and economic sphere launched during the Kim Young Sam regime. This paper tends to avoid deliver the judgement for this discourses, although it could be argued that the neoliberal explanation contains wrong understanding and overlooking of the close linkage in the Korean bureaucracy—business. This part of the section will see the process and mechanism of the dismantlement Korean DS⁶⁾.

It is no exaggeration that the features of the Korean DS have been diminished by financial deregulation and economic reforms as a consequence of reforms by the Kim Young Sam regime and by Kim Dae Jung regime after the 1997's crisis. The economic reforms under the Kim regime were resulted in accelerating the adoption of the neoliberal ideology to the Korean DS⁷⁾. The Kim Dae Jung regime carried out the series of neoliberal reforms as the response of the IMF demands which contained both corporate reform and financial restructure. The former includes the restructure and reform of *Chaebol* and central banks. The series of reforms for *Chaebol* were proceeded under the slogan of *The five plus three principles: The five principles* are “improv[ing] transparency in corporate governance, the abolition of cross-payment guarantees, the strengthening of corporate financial structures, the promotion of cooperation with small- and medium-sized enterprises, and increase[ing] accountability of management and major shareholders” (Cherry, 2005:333); the “three principles” policy consisted of the following points: “regulation of *Chaebol's* control of non-bank financial institutions and circular equity investment by *Chaebol* affiliates, and prevention of irregular inheritance and gift-giving among family members of *Chaebol* owners” (MO and Moon, 2003: 129). Trade liberalization, including liberalization of FDI, and capital account liberalization can be indicated as the financial restructure (IMF, 1997).

6) As for the causes of the 1997s' Asian financial crisis, many scholars show their positions. World Bank(1998), IMF(1999) examined it in the light of the neoliberal view, Chang, H.J., Wade, R. and Veneroso, F.,etc, from the Keynesian economics, criticise this neoliberal explanation. The detailed discussion is omitted since this paper does not mainly aim not at evaluating the causes but the impact of the globalisation after the crisis. Having said so, I assume that the neoliberal explanation has it's contradiction with what they explained in in the book “*The miracle of East Asia*”(1993).

7) The economic reform contained the foreign exchange liberalisation, capital market opening and the reduction of the state autonomy on policy loans and credit controls.

The dismantlement of the Korean DS also can be analysed by two criteria: (1) reforms for the external pressure and (2) the domestic legal and institutional reforms for supporting the former reforms. The reforms for the external pressure involved both (1) the complete repeal of the remaining state-controlled foreign exchange system by the Kim Dae Jung regime and (2) abolition of the trade related restrictions and liberalisation of the FDI in Korea.

It could be argued that the internal reforms changed “the political-economic nexus” including the *Chaebol* reforms, in the Johnson’s sense. The government revised or adopted the law and reformed the domestic corporate and financial system in order for it to be adequate for the competitive capitalist model. (1) The five-year planning, the selective industry policy and the EPB, by which the state was able to exert its autonomy in industry, were repealed. Especially, the globalisation policy of the Kim Young Sam government, which contained the repealing of five-year planning, the reorganisation of the economic institutions and the radical liberalisation, caused the decrease of the state’s autonomy in “resource allocation” (Chang, 2000:780). (2) The state’s credit for the selected corporations was also abolished. (3) The state privatised the state-owned banks and firms such as the commercial banks, the central bank, Korea Telecom and Korea Electric Power under the Kim Dae Jung regime.

The internal reform changed the state-industry relationship and as a consequence the state autonomy over the financial and industrial sectors was relinquished to the market discipline. The state autonomy over the Korean industry was reduced because of the abandonment of the state-led industrial policy by which the symbiotic relationship with the entrepreneur had been consolidated. Financial liberalisation, by which the business sector gained access to the foreign lower rate of borrowing, also resulted in reducing the state intervention in the industrial sectors. Thus, the features of the DS mentioned above were diminished and it transformed into, what Chang calls, “global standard institutions” (Chang, 2005:363)⁸⁾. A series of reforms, especially executed during the Kim Dae Jung regime, shows that it was the ‘*remedy*’ for the old Korea DS so that it can survive through neoliberal globalisation. This perspective, however, faces the counter-argument of the state-centric institutionalism. The detailed discussion is centred on how we evaluate the dismantlement of ‘the old Korean developmental state’ in the political dimension of neoliberal globalisation.

8) He suggests the six criteria for the GSIs.

2.2. The perspective of the state-centric institutionalism approach

This part tries to briefly mention about the arguments explored by Linda Weiss who points out the endurance of the Korean DS after the crisis. It could be noted that the strengthened national governance as the consequence of the global economy is one of her core arguments. She denies the position that the role of the state was reduced as consequences of the corporate reform and financial liberalisation after the 1997 financial crisis. According to Weiss, neoliberal reforms, both corporate restructuring and regulating of the financial sector, were guided and undertaken by the state, not by the markets (Weiss, 2003:249)⁹⁾. The series of the state-led liberalizations prove that the renew version of administrative guidance reformed the old Korean developmental state into the “the neodevelopmental state” so that it adapted itself to globalisation (Weiss, 2003:256)¹⁰⁾. Thus, she argues that reforms have been proceeded along the existing structures and this does not mean the dismantlement of the norms and habits in the DS.

This argument can be understood in relation to the transformation of the legacy of the developmental state. The autonomous ability of the Japanese MITI in the industrial policy has been restored by using another instrument such as ODA even after the economic liberalisation (Weiss, 1998:198). The Korea government has started providing the political incentives for venture businesses since the late of 1990s’ (Weiss, 2003:257). The government still hold the financial involvement for the developmental goal although monetary liberalisation no more allows the Korea government to give the political loans to the corporations (Weiss, 2003:257). Weiss argues that the role of the state as an executor of developmental policy has not been declined. Thus, according to Weiss, the case of the Korean DS prove that globalisation does not diminish but require the varieties of the state adaptiveness. The diversity of capitalism has been preserved even under the wave of neoliberal globalisation since each state has its own institution which has been highly effected by its historical and cultural background, in other words ‘the path’.

This polemic proves the divergent evaluation of the impact of globalisation on the state. Weiss shows the sceptic of globalisation constraint perspective. She denies the hypnosis that globalisation diminishes the institutional differences among states and argues that today’s so called globalisation should be recognized as internationalization in which the vigour “national and regional interaction networks” and the institutional diversity should be highlighted (Weiss, 1998:187).

9) As for more detailed process of reforms in Korea, see ch.12.

10) She does not use ‘internationalization’ instead of ‘globalisation’.

Yet, it also could be argued that she does underestimate the neoliberal character of the political economy and the impact of neoliberal globalisation. It cannot be denied the possibility that Weiss confounds the process for the dismantlement of the Korean DS with its transformation to install neoliberalism as national credo. We also should pay the careful attention to what happened to the Korea DS.

3. Neoliberal globalisation and the Korean developmental State

The new role of the state in that process cannot be underestimated because the direction of the national deregulation and the policy reform are implemented only by the state(government). In this regards, there is no denying that, as Weiss argues, the Korean government carried out the reforms in conformity with its 'path'. Yet, the Korean DS is no longer allowed to track its history back to before reforms. The Korean state putted itself into the international division of labour and the market-supremacy neoliberal tendency and it has no alternatives.

If this transformation of the Korea state would be called as 'adaptiveness' in Weiss sense, it for sure has the ability to transform. Yet it should be underlined that the impact of neoliberal globalisation should not evaluated merely in terms of interconnection and mobility of capitals. Neoliberal globalisation is rather the global project stemming from the Thatcher and Reagan reforms, of which aim was to allow the notion of the market-supremacy to be global ideology.

It is true that the diversity of the state capacity is preserved in the wave of neoliberal globalisation since each state have its own path to develop. Even the USA, as Perie points out, also nationally finances the key firms of which defence and medical research commercially applicable (Pirie, 2005:27). However, at the same time, the case of the demise of the Korean DS suggests that the Korean state changed its old style of politic—industry relation so that it can be adopted to the external environment. It is the very impact of neoliberal globalisation. The demise of the Korean DS and its adaption to neoliberal standard prove that the state who wishes for sustaining the economic development is now universally required to install the neoliberal ideology and then to carry out the policy and infrastructure to support it.

4. Conclusion

The IMF demand for the rescue to the 1997s' financial crisis was the decisive juncture for the Korean state to pave the way for installing the neoliberal ideology. This paper does not intend to deny the diversity of capitalism since the path dependence "stickiness"¹¹⁾ is to some extent persuasive when we consider the process of reforms in the DS. Rather, what the important is that the state, with preserving to some extent of institutional divergences, has no choice but to install neoliberal ideology and policy as national credo in order to sustain to the economic development under the wave of neoliberal globalisation. The neoliberal state precedes the policy which bolsters that through its own institutions. Neoliberal globalisation, in this sense, has convergence on the state policy.

The global economic crisis in September 2008 proves that the versatility of neoliberalism should be reconsidered. Brexit and the new Trump administration may possibly be described as the resistance reaction against the triumph of neoliberalism. Yet, it is too early to evaluate that the recent political phenomenon is the critical cause of the end of neoliberal globalisation when we think of ideological penetration of neoliberal globalisation.

11) Stubbs, R., (2009)p.12.

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