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The Paradoxes in Globalization's Economic Empowerment of South Korea*

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Abstract

From a broad perspective, South Korea's "Miracle on the Han River" appears quite miraculous. Economically, South Korea was transformed from one of the poorest nations in the world at the end of the Korean War to a developed nation in the early twenty-first century. The growing globalization of the world economy clearly empowered South Korea as growing integration into the world economy was the centerpiece of the nation's economic developmental strategy. Yet, Korea's rapid growth and industrial transformation appear paradoxical in several key regards. First, an economic miracle should produce a satisfied and grateful population, but most leading politicians and the country's leading economic and political institutions have been fairly unpopular during most of South Korea's postwar history. Second, the South Korean experience crosscuts the normal debate in development studies, which conflates globalization and neoliberalism. Third, South Korea's widely vaunted developmental state in the 1960s and 1970s in reality departed quite significantly from the developmental state model. Finally, South Korea's attempts to promote its integration into the global economy during the post-developmental state period produced several sets of contradictory effects.

Keywords: development state, economic development, globalization, neoliberalism, South Korea, *jaebeol*

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Introduction

The 1980s witnessed a revolution in developmental economics that represented the convergence of two distinct trends. The first was the growing *globalization* of the world economy, which was stimulated by a tremendous drop in transportation and communications costs that accelerated the movement of standardized production to the developing world to take advantage of low labor costs. The second was the increasing popularity of the tenets of *neoliberalism*, after the growing failures of communism and import-substitution industrialization in the developing world discredited Keynesianism, that *laissez-faire* policies were necessary to promote development through "the magic of the market" (Clark and Roy 1997; Gilpin 2001). Yet, the logic of neoliberalism was also strongly challenged by the "miracle" economies of East Asia whose export-led growth was accompanied by strong state intervention in the economy, leading to the theory of the "developmental state" (Evans, Rueschemeyer, and Skocpol 1985; Johnson 1982; World Bank 1993).

South Korea provides an excellent case to explore the relationships among economic growth, globalization, and state policy. Globalization or the tremendous increase in trade, capital flows, and production networks across borders that was stimulated by the technological and communications revolutions and by market-opening policies in many nations in the late twentiest century clearly powered South Korea's economic miracle (Dicken 2007; Friedman 2000; Gilpin 1987; Ohmae 1990; Strange 1996; Thurow 1992). Exports played a leading role in South Korea's industrialization drive in the 1960s and early 1970s and soon became overwhelmingly industrial in nature; foreign loans were of vital importance in financing the development and expansion of South Korea's large business groups (*jaebeol*); and the *jaebeol* ultimately became major players in the global economy. For example, Hyundai and Kia now have a major presence among U.S. automakers (Amsden 1989; Jones and Sakong 1980; T. Kang 1989; Kwon 2010; Woo 1991). South Korea, along with Japan, was also considered a prototypical development state where the government promoted selected corporate conglomerates as national champions in sunrise industries, allowing them to become internationally competitive and propelling the nation into an increasingly advanced industrial structure (Amsden 1989; Johnson 1982; Mardon and Paik 1992; Woo 1991).

This article, hence, examines the South Korean case to tease out its implications for theories of development. The first section sketches the stereotype of the country's highly successful development. In contrast, the second briefly notes four paradoxes in this stereotype.

First, despite South Korea's rapid economic development and successful (albeit delayed) democratic transition, most politicians and basic economic and political institutions have remained remarkably unpopular. Second, the South Korean experience crosscuts the major debates in development studies in a manner that challenges both the neoliberal and developmental state models. Third, even at the height of South Korea's developmental state, it deviated significantly from the theoretical depiction of what constitutes such a political economy. Finally, while South Korea has been a major beneficiary of globalization, the effects of globalization on the country have been rather contradictory over the last two decades. What these paradoxes indicate, therefore, is that the South Korean experience challenges most of the models in the political economy of development.

The Miracle on the Han River: The Stereotype

From a broad perspective, South Korea's "Miracle on the Han River" appears truly miraculous. Economically, the country was transformed from one of the poorest nations in the world at the end of the Korean War to a highly developed nation in the early twenty-first century. In 2011, for example, South Korea's Gross Domestic Product per capita of US$30,254 at PPP (Purchasing Power Parity) was significantly ahead of Portugal (US$25,352) and Greece (US$26,934), and close to catching up to Spain (US$32,501), Italy (US$32,935), and even Japan (US$33,785). Even more impressively given the lingering effects of the Great Recession, Korea was tied with Norway for the lowest unemployment rate among OECD nations at 3.5 percent.[1] The subtitle of a recent book by Stein Ringen and his associates captures this depiction of South Korea perfectly: *How South Korea Lifted Itself from Poverty and Dictatorship to Affluence and Democracy* (Ringen et al. 2011).

This quick stereotype of the Miracle on the Han River strongly implies that the burgeoning globalization of the late twentieth century empowered South Koreans to plot and implement an extremely effective development strategy that resulted in an impressive and even inspirational "rags-to-riches" story. The stereotype is also supported by the data in Table 1 on annual growth rates after the Korean War. From 1954 to 1960 under the Rhee administration, growth only averaged 3.7 percent a year. Once the industrialization drive took off, though, growth for 1963–1991 became quite dynamic, often in double digits, with the exception of a sharp contraction of 4.8 percent in 1980. For the last several decades, South Korea's overall growth has moderated noticeably, and there was a sharp recession in 1998 brought on by the Asian Financial Crisis and a milder downturn in 2008–2009 due to the fallout from the Great Recession. Still, this lower growth was probably inevitable given South Korea's transition to a service economy where productivity gains are harder (Kuznets 1966; Rostow 1960), and, as the GDP per capita figures noted previously demonstrate, South Korea has clearly entered the developed world.

There are two distinct ways of defining the stages of South Korea's development. From a political perspective, the authoritarian past can be separated from the democratic present with the popular election of either Roh Tae-woo in 1987 or Kim Young-sam in 1992 marking the dividing point, depending upon one's political perspective. In the economic realm, in contrast, there seems to be a threefold distinction: 1) the limited industrial development but very significant land reform that occurred before the military coup of 1961; 2) the rapid industrialization that occurred under a strong developmental state during the Park Chung-hee era; and 3) the declining role of the state over the last three decades. This section

1. Organization for Economic Co-operation and Development (OECD), *OECD Statistics*. Paris: OECD, accessed March 10, 2014, http://data.oecd.org.

Table 1. *Annual Economic Growth Rate*

1954	5.1%	1970	7.6%	1990	9.0%
1955	4.5%	1971	9.1%	1991	9.1%
1956	–1.4%	1972	5.3%	1992	5.0%
1957	7.6%	1973	14.0%	1993	5.9%
1958	5.5%	1974	8.5%	1994	8.4%
1959	3.8%	1975	6.8%	1995	8.7%
		1976	13.4%	1996	6.9%
1960	1.1%	1977	10.7%	1997	5.0%
1961	5.6%	1978	11.0%	1998	–6.7%
1962	2.2%	1979	7.0%	1999	10.7%
1963	9.1%				
1964	9.6%	1980	–4.8%	2000	8.5%
1965	5.8%	1981	5.9%	2001	3.8%
1966	12.7%	1982	7.2%	2002	7.0%
1967	6.6%	1983	12.6%	2003	3.1%
1968	11.3%	1984	9.3%	2004	4.6%
1969	13.8%	1985	7.0%	2005	4.0%
		1986	12.9%	2006	5.2%
		1987	12.8%	2007	4.1%
		1988	12.2%	2008	2.3%
		1989	6.7%	2009	0.3%
				2010	6.3%
				2011	3.6%
				2012	2.1%

Sources: J. K. Oh (1999, 62), for 1954–1996; Kwon (2010, 19), for 1997–2000; OECD,[2] for 2001–2011; Sohn and Kang (2013, 198), for 2012.

2. Organization for Economic Co-operation and Development (OECD), *OECD Statistics*. Paris: OECD, accessed March 10, 2014, http://data.oecd.org.

provides an overview of the developmental state and post-developmental state eras (although democratization plays a key role in the latter), with an emphasis on the stereotypes of the Korean success story.

South Korea's Developmental State

South Korea was long considered to have a prototypical developmental state. Indeed, this seemed to be the explicit strategy of Park Chung-hee, who immediately upon taking power in 1961, embarked upon an aggressive policy of state-led development based on the model of Meiji Japan and postwar reconstruction of Japan in pursuit of the goal of "rich nation, strong army." In particular, he wanted to construct heavy industry to support the military, use economic success to legitimize the coup, and establish South Korea as a modern, thriving nation, much as Japan had done during the Meiji era and after World War II (Moon and Jun 2011).

In the 1950s, South Korea used import substitution to establish domestic light industries and then began a major drive exporting these products in the mid-1960s. The export sector was certainly dynamic. Between 1962 and 1974, for example, exports generally grew between 30 percent and 40 percent each year, as the trade/GNP ratio skyrocketed from 9 percent in the late 1950s to 54 percent during the 1970s. The industrial content of South Korea's exports also jumped rapidly, and by 1971 manufactured goods constituted 86 percent of all exports. Park was committed, though, to rapid development of the heavy and chemical industries in what is called "secondary import substitution" (Gereffi 1990). Unlike the Latin American pattern of focusing upon the domestic market in these industries, Park pushed for export-oriented industries because he realized that the South Korean market by itself was too small for efficient large-scale production. The rapidity with which South Korea became competitive in these industries is almost breathtaking. Between 1971 and 1984, heavy industry's share of total industrial production rose by a half from 40 percent to 62 percent. What is more impressive, though, is the tremendous transformation of the nation's export mix. In 1971, these industries were primarily import substitution, as they constituted just 13 percent of all industrial exports. In 1984, in astonishing contrast, they formed 60 percent of industrial exports, almost exactly the same as their proportion of industrial production (Amsden 1989; Cho 1994; Haggard and Moon 1983, 1990; Jones and Sakong 1980; T. Kang 1989; Kwon 2010).

To promote rapid industrialization, the government resorted to a battery of policy instruments, including the allocation of financial credit, production subsidies, tariff protection, export quotas, and tax rebates to influence entrepreneurial incentives. The financial system was probably by far the most important and distinctive policy instrument in this arsenal. South Korea had extreme government ownership and control of its financial system, including a large amount of funds borrowed from abroad. This control allowed it to funnel these funds to enterprises selected as "national champions" in a specific industry and to enforce performance standards by threatening to withdraw credit if production, export, or quality goals were not met. The high priority given to the heavy and chemical industries had important implications for South Korea's industrial structure. Because of the huge capital requirements for these industries, only large corporate conglomerates (*jaebeol*) or in the case of Pohang Iron and Steel Company (POSCO), a state corporation, were viable producers. Consequently, a strong degree of industrial concentration soon developed. Park also saw the danger that such concentration could promote rent-seeking, so the government consciously promoted competition in specific industries among selected *jaebeol* (Amsden 1989; Fields 1995; B. Kim 2011; E. Kim and Park 2011; Woo 1991).

South Korea also stood out for its statist practice of placing stringent limits on the direct foreign investments of MNCs who wished to invest in the country. However, these restrictions were not aimed at the simple exclusion of foreign capital. Rather, the regime acted to channel MNCs into a few high priority sectors and to regulate them to maximize their contribution to the development of South Korean national champions. According to this strategy, foreign investment in an industry would first be solicited but would only be allowed in the form of joint ventures with domestic firms. Once the South Korean partner learned the business and the technology and was strong enough to carry on operations by itself, the MNC would be forced to divest itself (under the terms of the original contract), thereby leaving a new industry in local hands (Amsden 1989; Haggard and Moon 1983; Mardon 1990; Mardon and Paik 1992). As Mardon and Paik (1992, 158–159) concluded from a case study of oil refining:

> Today, South Korea refines 100 percent of its domestic oil requirements, . . . hauls the bulk of it on its own ships, and holds total financial and operational control. . . . All these refining operations are owned by large and diversified domestic corporations. The capital earned and the technical knowledge gained . . . are applied to the expansion of these firms in other sectors. Such policies and action led to the establishment of Korean-owned and Korean-controlled production in a wide range of heavy and chemical industry sectors.

Post-Developmental State Development

South Korea's strong developmental state began to dissipate following Park Chung-hee's assassination. The period from 1980 to the present has been marked by several momentous changes in the political economy of South Korea. There was a democratic transition in the late 1980s and early 1990s that redefined the state's relationships with business and, more broadly, with civil society in general; two major economic crises erupted with the Asian Financial Crisis of 1997–1998 and the Great Recession that started in 2008; and South Korea's economic structure changed significantly as well.

The data on the economic growth rate indicate that the last three decades of the post-developmental state period have had both high and low points. The country recovered quickly from the sharp recession of 1980 and resumed its high rate of growth, averaging 9.9 percent annually between 1982 and 1991. For the next six years, growth was somewhat less robust, averaging 6.6 percent per year. Then, the Asian Financial Crisis led to a severe recession in 1998 when the economy contracted by 6.7 percent. South Korea's recovery from the Asian flu was surprisingly dramatic, though, as its economy grew 10.7 percent in 1999 and 8.5 percent in 2000. These two years represented the "last hurrah" for high growth in the country, as real growth averaged 4.2 percent between 2003 and 2007; and then the effects of the Great Recession were felt.

There are two contradictory interpretations of these data. On the one hand, they can be taken as signs of South Korea's declining performance (Kwon 2010). On the other, they can also be seen as the inevitable result of the nation's transition to an information-age economy. For example, slower growth has been the fate of all mature economies as they pass out of their industrialization stage (Clark and Roy 1997; Kuznets 1966), and, closer to home, Taiwan has exhibited almost exactly the same pattern of growth over the last 25 years (Clark and Tan 2012). In particular, South Korea has had substantial progress and success in making the transformation from an industrial to a "knowledge-based" economy (Kwon 2010).

While the developmental state dominated the *jaebeol* during the Park era, the nature of state-business relations began to change in the early 1980s and then became quite different by the 1990s. This change was initiated by the state itself. The Economic Planning Board, which led and coordinated the governmental bureaucracy's efforts in the economic area, came to be dominated by neoliberals who supported a free market approach. This was a reaction to the economic crisis of inflation and overcapacity that the heavy and chemical industries, while ultimately quite successful, had produced at the time of Park's death. For example, banks were privatized under Chun Doo-hwan (even though state influence over them remained strong). The *jaebeol*, for their part, became increasingly strong from their economic success and consequently able to resist government pressure. For example, Chun's attempt to rationalize the auto industry by restricting access to the sector, forcing mergers, and limiting specific auto firms to the production of only certain types of vehicles in response to the economic crisis at the beginning of the 1980s was at best only partially successful due to *jaebeol* resistance, and South Korea's successful upgrading in the key semiconductors industry was primarily the result of private initiative in a sector that state policy-makers relatively ignored. Then, democratization in the late 1980s brought considerable constraints on the power of government to impose itself on business and South Korea's increasingly strong civil society (Amsden 1989; Haggard and Moon 1990; Hahm and Plein 1997; Hong 1992; Lew 1999; Mo and Moon 1999a; Moon 1988; Noble 2011; Jennifer Oh 2012).

For the three decades of the 1960s through the 1980s, South Korea clearly rode the wave of globalization through exports, foreign loans, and management of MNCs in the homeland to extremely rapid growth and industrial transformation. It is rather ironic, hence, that the 1990s witnessed the considerable dismantling of the developmental state that had been widely credited for South Korea's past economic miracle in the very name of "globalization" itself. This transformation of South Korea's economic policy occurred in two stages. In the mid–1990s President Kim Young-sam initiated an explicit program of "Globalization" or *Segyehwa* that was explicitly designed to integrate South Korea into the global economy and society, and the need to gain IMF assistance in late 1997 to survive the Asian Financial Crisis brought drastic market-opening and liberalization reforms (S. Kim 2000a; Kwon 2010).

The *Segyehwa* program of Kim Young-sam was quite broad in its vision of transforming South Korea to deepen its integration into the global order. Economically, this included adopting international norms, reducing state regulation of the economy and the *jaebeol*, liberalizing the country's financial markets, and, in particular, qualifying South Korea for OECD membership (S. Kim 2000a; Kwon 2010). South Korea's response to the Asian Financial Crisis centered on an IMF bailout which involved large-scale market-opening (especially to foreign capital), government austerity measures, and corporate reforms (Kwon 2010; Mo and Moon 1999b). Despite South Korea's rapid recovery from its financial collapse in 1997–1998, most of the initially promised reforms were only partially implemented at best, reflecting the fact that the crisis resulted from private not public debt, which made many of the normal IMF conditionality policies for government austerity irrelevant, as well as domestic political gridlock and perhaps the decreased urgency that recovery brought (Clark and Jung 2002; Kwon 2010; Jennifer Oh 2012; Ringen et al. 2011; Suh, Park, and Kim 2012).

The Paradoxes in How Globalization Empowered South Korea Economically

The overview of South Korea's rapid development in the previous section strongly suggests that globalization empowered South Koreans to pursue an extremely successful development model. However, several important inconsistencies or paradoxes are also easy to discern. First, an "economic miracle" should produce a satisfied and grateful population, but most leading politicians and the country's leading economic and political institutions have been fairly unpopular during South Korea's postwar history. Second, it might be expected that South Korea's record should support one side or the other in the debate between advocates of the developmental state and neoliberalism, but instead it challenges both. Third, although South Korea during the Park era was regarded as the epitome of a developmental state, it deviated from that model considerably even then. Fourth, in contrast to the image of South Korea as a strong beneficiary of globalization, the country's "globalization" efforts over the last 20 years have produced decidedly contradictory effects.

Popular Discontent Despite the Miracle on the Han River

One would expect that South Korea's rapid industrialization and growth should have redounded to the credit of a variety of political leaders. However, as indicated in Table 2, not one top political leader since Independence, with the possible exception of the extremely short-termed Choi Kyu-hah, has left office with much credit to his name (John Oh 1999; Ringen et al. 2011). This pattern is quite remarkable as it holds during both the authoritarian and democratic eras and for both rightist and leftist presidents.

More broadly, the South Korean institutions involved in development have all manifested serious problems at one time or another. In the economic realm, the recurring problems and crises of the *jaebeol* and the country's financial institutions certainly make these economic actors look

Table 2. Situation of Top Political Leader When Leaving Office

Top Political Leader	Years in Power	Situation when Leaving Office
President Syngman Rhee	1948–1960	Massive demonstrations due to authoritarianism, economic problems, and fixed presidential election
Prime Minister Chang Myon	1960–1961	Chaotic and ineffective democratic government ended by military coup
President Park Chung-hee	1961–1979	Assassinated at time of strong popular unrest over growing authoritarianism and signs of economic strain
Acting President Choi Kyu-hah	Oct.–Dec. 1979	Ousted by military coup after promising return to democracy
President Chun Doo-hwan	1980 (1979) –1987	Massive demonstrations forced him to allow direct presidential election for his successor
President Roh Tae-woo	1988–1992	Declining popularity because of economic problems and indecisive leadership
President Kim Young-sam	1993–1997	Highly unpopular at end of term
President Kim Dae-jung	1998–2002	Highly unpopular at end of term
President Roh Moo-hyun	2003–2007	Highly unpopular at end of term
President Lee Myung-bak	2008–2012	Highly unpopular at end of term

Sources: John Oh (1999), for Rhee through Kim Young-sam; Lee (1992), for Roh Tae-woo; Kwon (2010), for Kim Dae-jung and Roh Moo-hyun; Mundy,[3] for Lee Myung-bak.

far from miraculous (C. Kang 2000; D. Kang 2002; S. Kim 2000b; Kwon 2010). In particular, their leading role in South Korea's economic miracle has not spared the *jaebeol* from generally being seen as corrupt and exploitative during most of the postwar era. Recently, for example, President Lee Myung-bak's pro-*jaebeol* policies were a major factor in his low

3. Simon Mundy, "South Korea's President Lee Myung-bak Apologizes for Corruption Scandal." *Washington Post*, July 24, 2012, accessed March 27, 2014, http://www.washingtonpost.com/world/asia_pacific/south-koreas-president-lee-myung-bak-apologizes-for-corruption-scandal/2012/07/24/gJQAklSk6W_story.html.

popularity; and the two candidates in the 2012 presidential election, Park Geun-hye and Moon Jae-in, "both promised to regulate *jaebeol* dominance" (Sohn and Kang 2013). Furthermore, the institutional base for governmental policy-making remains fairly weak. The party system is weak because parties have been generally tied to individual leaders, as indicated by the periodically changing names of the major parties; and the parties have often displayed quite limited acceptance of each other's legitimacy (Hahm, Jung, and Kim 2013; Shin 1999; Suh, Park, and Kim 2012). As a result, their ability to aggregate issues and mediate social relations is limited, resulting in what Jennifer Oh (2012) terms a "strong civil society" that is somewhat loath to work through the formal political system.

South Korea's Strange Position in the Debate over Globalization

The 1980s witnessed a revolution in developmental economics that represented the convergence of two distinct trends. The first was that the growing "globalization" of the world economy brought about a tremendous drop in transportation and communications costs, which allowed the movement of standardized production to the developing world to take advantage of low labor costs. The second was the increasing popularity of the tenets of "neoliberalism," after the growing failures of communism and import-substitution industrialization in the developing world, that argued that *laissez-faire* policies were necessary to promote development through "the magic of the market." Globalism and neoliberalism are often conflated and have set off a strident debate between political conservatives and liberals. The former advocate a combination of globalization and neoliberalism because they are seen as necessary to promote economic efficiency and, thus, represent the only possible path to prosperity. In contrast, the latter argue that globalization and neoliberalism perpetuate the power of rich nations and MNCs, thereby preventing upward mobility in the global world order (Clark and Roy 1997; Gilpin 2001).

The development record of South Korea, as outlined in the last section, offers both support and criticism to the two sides in the debate over globalization and neoliberalism. From one perspective, South Korea offers strong support for the conservatives' position that developing (and developed) nations should participate in economic globalization to promote their economic development. Its exports soon became highly competitive on world markets and stimulated rapid industrial upgrading; foreign capital (primarily loans) was vital in funding the development of South Korean industry; and ultimately South Korean *jaebeol* became effective MNCs in their own right. Thus, it can certainly be argued that the country represents a very successful example of market-led development.

In contrast, the state has played a significant role in the South Korean economy. During the developmental state era, the government quite conspicuously assumed a major role in the economy, exactly the opposite of neoliberal prescriptions. New industries were targeted; and even the *jaebeol* that would be the national champions in a specific sector were selected by the state. The government-controlled financial institutions channeled foreign loans into politically selected industries and projects. Infant and not-so-infant industries received very significant protection; exports were promoted and subsidized; and foreign direct investment was tightly controlled to help, not compete with, South Korea's national champions (Amsden 1989; B. Kim 2011; E. Kim and Park 2011; Woo 1991). In addition, the incredible success story of the state corporation, Pohang Iron and Steel, flies in the face of neoliberal orthodoxy (Amsden 1989; Rhyu and Lew 2011). As Rhyu and Lew (2011: 324) put it, with or without intended irony, "The World Bank, which had turned down POSCO's 1968 loan request on the grounds that South Korea had no comparative advantage in the production of steel, by 1981 called it 'the world's most efficient producer of steel.'" More broadly, South Korea's rapid industrial upgrading indicates the existence of "dynamic comparative advantage" and the effectiveness of infant industry protection and promotion (Clark and Roy 1997).

The successes of South Korea's developmental state are far from the end of the story, however. First, even at the height of the developmental state during the Park regime, there were plenty of problems that matched the predictions of the neoliberals. Park's strategy of creating competing *jaebeol* in various sectors led to very aggressive corporate expansions, which, in turn, created significant overcapacity and inefficiency, and massive corruption and enforced political kickbacks were the antithesis of economic efficiency (D. Kang 2002). Second, starting in the 1980s, South Korea policy-makers became increasingly neoliberal in their orientation, leading to Kim Young-sam's *Segyehwa* program and the fairly radical market-opening reforms after the Asian Financial Crisis (Haggard and Moon 1990; S. Kim 2000a; Kwon 2010; Mo and Moon 1999b; Moon 1988). While these measures were not always successful nor fully implemented (S. Kim 2000b; Kwon 2010; Mo and Moon 1999b), the fact that there have been few, if any, calls for a return to the strong developmental state of the 1960s and 1970s represents an implicit endorsement of the overall strategy of greater marketization.

The South Korean experience, therefore, crosscuts the debate over globalization and neoliberalism. South Korea, like most countries who have industrialized since Great Britain, applied a variety of state policies to stimulate the creation and development of key economic sectors (Evans, Rueschemeyer, and Skocpol 1985; Gerschenkron 1962; Rosecrance 1986). Yet, to succeed in its strategy, South Korea had to develop industries that were highly competitive on international markets, supporting the conclusion that successful development policies must be "market-conforming" (Amsden 1989; Clark and Roy 1997; Wade 1990). Furthermore, the declining role of the state in the South Korean economy suggests that state leadership may be more effective in earlier stages of industrialization rather than in more advanced ones. For example, while what needs to be done to establish a steel industry is fairly clear-cut (if not necessarily easy to implement), the basic research, development, and commercialization in biotechnology are so open-ended and have such long gestation periods that it is hard to devise promotional policies, making the determination of effective policies much more difficult for both the public and private sectors (Wong 2010).

South Korea's Divergence from the Developmental State Model

While neoliberalism became quite popular in some academic and especially official circles during the 1980s, the spectacular economic performance of several East Asian nations, which clearly did not pursue *laissez-faire* policies, led to a competing theoretical perspective based on *Bringing the State Back In* (Evans, Rueschemeyer, and Skocpol 1985), resulting in a model of the developmental state that strongly referenced the East Asian experience (Amsden 1989; Deyo 1987; Johnson 1982; Wade 1990). Moon and Prasad (1994, 362–363), in a critical analysis of the developmental state, provide an excellent summary of this idealized model:

> Executive dominance allows political leaders to create and expand spaces for bureaucratic rule. Bureaucratic agencies in the East Asian developmental states are highly structured and competently staffed. . . . The organization is composed of highly capable individuals screened and recruited through cut-throat open competition. Bureaucrats in the developmental states are also united in purpose, and show an unusually high degree of congruence with organizational and national goals. Such unity of purpose minimizes bureaucratic in-fighting and enhances inter-agency consensus and coordination. Furthermore, meritocratic practices originating from the Confucian tradition and elite social status prevent public bureaucrats from being "captured" by rent-seeking social groups.

While South Korea has often been cited as an example of a successful developmental state from a variety of perspectives (Amsden 1989; Clark and Roy 1997; Evans 1995; Woo 1991), Kim's description of the developmental state in its heyday during the 1960s and 1970s presents a picture somewhat at variance with the technocratic model summarized previously by Moon and Prasad (B. Kim 2011, 201–202):

> [Park's plans] were anything but technocratically formulated goals. On the contrary, these dreams, as many saw them, drove Park into pursuing industrial projects that were too big for the domestic economy, but too small by international standards. When the *chaebeol* resisted, the state

> bureaucracy wavered, and MNCs ignored, Park typically countered with even more ambitious investment proposals . . . . Even then, it was not foreigners but South Korean manufacturers who seized the risky but irresistible opportunity to transform themselves into industrial groups with their own international brand, technological capability, domestic supply network, and overseas distribution facility, more or less on a par with Japanese multinationals.

Park did indeed professionalize and insulate the economic bureaucracy from political patronage and military interference, but it is here that the idealized model of a technocracy ends. The prime mover in South Korea's initial industrialization surge was clearly President Park himself. He based his strategic decisions, not on technocratic analysis, but on his personal vision of making South Korea a second Japan within his lifetime and of using the build-up of the nation's heavy and chemical industries to promote his security objectives. The implications of Park's vision did not comport with an orderly technocratic development scheme. Only the large-scale *jaebeol* could be capable of developing heavy industry complexes, which meant favoring them over small-and-medium enterprises in resource allocations. In addition, the high-risk nature of these projects meant that the state had to extend at least implicit guarantees of continuing support to the *jaebeol*. This strategy had several less than desirable consequences. To promote competition and deter simple rent-seeking, Park ensured that at least several *jaebeol* would operate in each sector, which, in turn, resulted in overcapacity and periodic financial crises, and the state's suppression of labor to facilitate rapid development left a bitter legacy that still lingers. Turning to the economic bureaucracy itself, the bureaucrats' major goal was trying to figure out how to make Park's policies work even if they would have preferred less risky initiatives; and rather than working out bureaucratic consensuses, there was an institutional hierarchy with the Economic Planning Board and Ministry of Finance on top (Amsden 1989; B. Kim 2011; E. Kim and Park 2011; Y. Kim and Moon 2000; Rhyu and Lew 2011).

The deviations of South Korea from the developmental state model should not be too disconcerting, though, when one realizes that there really is no one all-encompassing model, even for East Asia. Indeed, the political economies of the East Asian nations, all of which, with the exception of Hong Kong, differed dramatically from neoliberal orthodoxy, exhibit a variety of patterns (Clark and Roy 1997; Pye 1985). More broadly, the "varieties of capitalism" school argues that there are very distinct types of political economies that exist in the developed world (Garrett 1998; Hall and Soskice 2001; Hays 2009; Katzenstein 1985; Pierson 2001; Ruggie 1982; Swank 2002). The fact that different state roles in the economy can be found, in turn, raises the question of why South Korea had a successful developmental state instead of, for example, using the power of government for profit and plunder following the pattern of what Evans (1995) calls a predatory state. Evans (1995) argues that developmental states are "embedded" in their societies and culture and, thus, committed to national development rather than plunder. Yet, the dynastic regimes in South Korea before colonization were embedded in the traditional culture and society and failed to promote development precisely because they were embedded (John Oh 1999). Rather, what stands out about the South Korean developmental state of the 1960s and 1970s was the mutual interdependencies that existed among the major actors. President Park needed entrepreneurial and productive *jaebeol* and a skilled and professional economic bureaucracy while businessmen and bureaucrats were highly dependent on the good will of the President. Consequently, all of them had strong incentives to make the system work.

The Contradictory Effects of South Korea's "Globalization" in the Post-Developmental State Era

South Korea's attempts to promote its integration into the global economy during the post-developmental state period produced several sets of contradictory effects. Four of them are considered here. First, South Korea's one explicit globalization program, the *Segyehwa* reforms, appears to have been a failure, despite the high importance of globalization for stimulating the country's economic miracle. Second, the international norms that were accepted as part of South Korea's growing globalization were widely seen as undercutting the nation's economic competitiveness. Third, despite the IMF's strictures for austerity as part of its aid package in 1997, South Korea actually responded to the Asian Financial Crisis by greatly expanding its social welfare programs. Finally, despite South Korea's substantial increase in GDP per capita and creation of a welfare state, the country has been marked by increasing inequality and insecurity in the early twenty-first century.

South Korea has clearly been a beneficiary of globalization. Yet, Kim Young-sam's *Segyehwa* program in the mid–1990s that was designed to promote globalization is widely seen as harming the country economically. Since *Segyehwa* was soon followed by the disastrous Asian Financial Crisis for South Korea, it is widely seen as a failure. While it is possible to blame past state interference in the economy for this failure (Kwon 2010), the dominant interpretation has been that the greater freedom given to incompetent financial institutions and overly aggressive *jaebeol* led to risky and speculative behavior and to the overexpansion of many business empires (S. Kim 2000b; Mo and Moon 1999b). This failure, in addition, demonstrates again that giving free rein to markets is not always a wise policy.

One important part of Kim's *Segyehwa* program was to bring South Korea into conformity with international norms concerning labor relations and human rights, which was prerequisite for his goal of gaining OECD membership for his country. Yet, several scholars have noted that these reforms and the nation's democratization itself probably undercut the competitiveness of some of South Korea's basic industries because of the resulting rapid rise in wages during the late 1980s and early 1990s (S. Kim 2000b; Y. Kim and Moon 2000; Mo 1999). Rising wages and improved labor conditions brought South Korea to a rather unpalatable trade-off. On the one hand, it needed to adopt international norms to allow its globalization efforts to succeed. On the other, this adoption accelerated the pressure on its traditional industries.

In December 1997, the International Monetary Fund agreed to provide South Korea with a US$58 billion rescue package that included "market liberalization, macroeconomic stabilization and privatization, seeking to minimize government intervention and promote a market-based economy" (Kwon 2010, 31). As noted previously, South Korea then commenced upon an extensive program of market opening (Kwon 2010). However, instead of implementing the usual IMF recommendations for austerity, the government of Kim Dae-jung substantially expanded (or some would consider created) the South Korean welfare state (Jung and Clark 2010; Kwon 2010; Ringen et al 2011; Yang 2012). Yang (2012), furthermore, attributes the perhaps surprising commitment to welfare policies, including a "job sharing" program similar to Germany's, of conservative President Lee Myung-bak as accounting for South Korea's good record on unemployment during the Great Recession. Consequently, even with the demise of its developmental state, South Korea apparently remains somewhat skeptical of neoliberal orthodoxy.

A final contradiction is that, despite the expansion of the welfare state (Kwon 2010; Ringen et al. 2011; Yang 2012), the early twenty-first century in South Korea has been marked by growing inequality and insecurity. For example, South Korea's GDP per capita and unemployment rate at the end of the first decade of the twenty-first century cited previously mask much more insalubrious data, such as the facts that the poverty almost doubled from 7.8 percent in 1990 to 14.9 percent in 2010 and that 43 percent of salaried workers were considerably lower-paid "non-regular" ones in 2009 (Suh, Park, and Kim 2012), reflecting the continuing and growing problem of inequality in the nation (Chi and Kwon 2012). Growing inequality, in turn, at least partially reflects a trade-off in the globalization and market-opening reforms in which greater institutionalization of labor unions was offset by the imposition of greater "labor flexibility" in the form of making layoffs and the use of non-regular employees (Chi and Kwon 2012; Kwon 2010; Suh, Park, and Kim 2012).

These contradictory effects in South Korea's globalization efforts through the post-developmental state era certainly indicate that development and progress are neither easy nor necessarily linear processes, calling to mind Schumpeter's (1950) conceptualization of economic development as "creative destruction." This mixture of economic success and challenge may raise another challenge to the neoliberals' "hands-off" policy. Hacker (2006) argues that *The Great Risk* shift to individuals in the United States very probably undercuts entrepreneurship because insecure people are risk adverse. South Korea provides a good example of this phenomenon when President Park had to promise substantial support to the *jaebeol* in order to get them to commit to his risky ventures (Amsden 1989; B. Kim 2011). More broadly, providing support and "compensation" to the victims of creative destruction has allowed developmental efforts to overcome potential political opposition in such disparate political economies as Japan (Calder 1988), and small European nations with open economies (Katzenstein 1985).

Implications

South Korea has strongly pursued integration into the global economy or globalization as the centerpiece of its economic development strategy since the early 1960s. There is an ongoing and strident debate over whether neoliberalism or the developmental state provides the key for economic success under globalization. The South Korean experience suggests that this debate is too simplistic. When nations start industrialization, some state protection and promotion is almost necessary to help "infant industries" overcome high entry barriers (Clark and Roy 1997; Gerschenkron 1962; Lake 1988), and government "compensation" for businesses, workers, and communities in declining sectors sometimes makes economic change possible during periods of fundamental economic transformation (Calder 1988; Katzenstein 1985). In South Korea, for example, many of its industries almost certainly could not have become competitive without state support; and the creation of a welfare state in response to the Asian Financial Crisis established an important type of compensation. Thus, the conflating of neoliberalism and globalization appears unwarranted. Indeed, countries that commit to globalization should probably reject neoliberalism in order to manage the many dangers that lurk in international markets (Clark and Clark 2013). In contrast, rapid development in South

Korea also demonstrates that neoliberals are correct in emphasizing the importance of markets, as South Korea's export-led model could only have worked if its industries became internationally competitive. South Korea, consequently, combined neoliberal and developmental-state prescription, representing what Chan and Clark (1992) have termed "eclecticism beyond orthodoxies."

South Korea also illustrates that globalization-driven development almost inevitably brings economic problems even under the best of circumstances. In particular, South Korea has suffered from two trends that have been associated with the economic sequencing associated with globalization: declining economic growth and growing inequality over the last two decades. First, as an economy matures and makes the transition from industry to services, its economic growth rate declines because productivity gains peak in the industrial stage. Globalization accelerates this trend because as nations become more prosperous their labor-intensive industries come under growing pressure from poorer countries with low-wage labor. Second, for reasons that are not so theoretically clear-cut, inequality is rising in almost all post-industrial societies. This problem is particularly marked in the United States, where there is not just a comparatively high level of income and especially asset inequality but where a substantial transfer of risk bearing from government and business to the individual has also occurred (Hacker 2006; Pierson and Hacker 2010; Smith 2012).

Finally, South Korea's developmental history also has several broader implications about how nations evolve away from a developmental state. First, an activist state in a "late developer" has been justified because of the lack of business and societal resources in developing nations. In contrast, successful development creates resources that make this argument moot. For example, by the 1980s South Korea's *jaebeol* had become so strong that they no longer needed government support. Second, failures and problems, which are almost inevitable, can undermine the support for and legitimacy of a government's economic policy. For example, as noted in the section on South Korea's developmental state, the problems associated with President Park's developmental state undermined the support for statism among both the general population and the technocracy. Third, the problem of rent-seeking suggests contradictory imperatives. On the one hand, government can exercise "countervailing power" to limit business excesses (Galbraith 1978); on the other, a stable political regime, such as the alliance between business and government in a developmental state, can degenerate over time into power being used to extract rents rather than pursue economic efficiency (Olson 1982). In South Korea, unfortunately, the scandals that have affected almost every government indicate a problem in the exercise of economic power that was not solved by the demise of the developmental state (Kwon, 2010; Jojn Oh 1999).

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