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Transformation of the South Korean State: Structural Changes of the State after the 1997 Financial Crisis

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Abstract

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The entire process of Korean economic development in the 1960s, 1970s, and 1980s demonstrated the possibility of economic development in the third world. The 1997 financial crisis led many to affirm that the Korean state had lost its ability to deal with domestic economic and welfare policies. Using Cerny's three "shifts" in the character and nature of the welfare state, this paper examines changes in the Korean state after the economic crisis and assesses whether globalization and neo-liberal economic restructuring have resulted in the emergence of a new type of state in Korea. The results suggest that although globalization undermines the economic and political conditions on which the developmental state was based, there is no indication that the developmental interventionist state, which had been a crucial feature of Korea's industrialization process over the past few decades, has actually weakened. Rather, as compared with previous regimes, the state has become more powerful and more interventionist. Despite a convergence in national economic policies toward the economic paradigm of the competition state, there are still unique domestic responses to globalization according to different national economic ideologies and past practices.

Keywords: South Korea, Financial Crisis, Globalization, Models of Economic Development

JEL Numbers: F02, F32, P51

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1. Introduction

The 1997 economic crisis in South Korea (hereafter Korea) prompted scholars inside and outside of Korea to reflect on the future of the developmental state in the country. Originally formulated based on the postwar Japanese state (Johnson 1982; Woo-Cumings 1999), the concept and theory of the developmental state was also largely applicable to Korea's dramatic economic development in the past several decades. The developmental state in Korea, externally autonomous from various societal interests and internally cohesive due to disciplined bureaucrats, oversaw the entire process of economic development in the 1960s, 1970s, and 1980s.

The recent discussion on the developmental state in Korea has so far revolved around the question of how we can and should understand and assess various changes occurring under the "post 1997 crisis" Korean administrations. Some scholars argue that what is taking place in Korea is a historic transformation of the state system (Y. Kim 1999; J. Lee 1999). They highlight various aspects of globalization and argue that changes in the global economic and financial systems have led to the transformation of the Korean state, which warrants a fundamental reconsideration of the dominant developmental state model. As in other parts of the world, the diffusion of globalization has caused significant structural changes at the local level (Cohen 2001). As a result, a "competition state" (Cerny 1990, 1995, 1997, 2000) is slowly emerging in Korea, replacing the pre-existing developmental state.

Meanwhile, other scholars argue that the fundamental nature of the Korean state—i.e., its developmental nature—has not changed much (Y. Lee 1999; E. M. Kim 1999). The developmental state has not disappeared. Rather, it is the developmental state—even more empowered as compared with the past—that has led the process of neo-liberal and market-oriented reform in Korea. For example, S. Kim (2000b: 163) argues: "the unfolding of reform politics in Korea has been paradoxically self-defeating, augmenting the power and influence of the state they eventually seek to diminish." Analyzing changes in the balance of power among the economic ministries, E. M. Kim (1999) also contends that the 1997 economic crisis has not led to a fundamental restructuring of the developmental state. Haggard et al. (1999) agrees as well that the adjustment strategy of the Korean government has numerous 'command and control' elements, reflecting the potency of the strong development state.

The purpose of this paper is to examine changes in the Korean state after the 1997 economic crisis and to assess whether globalization and neo-liberal economic restructuring have resulted in the emergence of a new type of state in Korea. Section 2 presents a general theoretical discussion of economic development, differing models of national economies, globalization and its impact on state transformation. Section 3 analyzes the Korean case, specifically in terms of Cerny's three 'shifts' supposedly caused by globalization. Section 4 concludes the paper with a few reflections on the comparative implications of the Korean case and the future of the developmental state in Korea.

2. Economic Development, Globalization, and the Rise of the Competition State

One of the central and most controversial questions that researchers and practitioners have tackled for decades, if not centuries, is the process of economic development. In other words, how does a state like X catapult itself from a less developed country into a developed country? The Germans, French, and later Americans were obsessed by the goal of catching up with the United Kingdom in the 1800's. Starting in the 1930 the Soviets put forth some elaborate economic plans to keep pace with the West. Today, underdeveloped countries around the globe are seeking magic recipes that would allow them to join the ranks of the "haves." However, more recently, the debate has shifted from the questions of "How do we industrialize?" to a question of "How do we maintain our economic position on the international totem?" More specifically, we ponder which developmental strategy is the most apt to weather the storm of globalization? In this section we focus our attention on the past successes and failures of developmental strategies, and we examine how such national economic prescriptions cope with the forces of globalization.

Perspectives on Economic Development

For the purpose of this study we adopt Goldstein's definition of economic development: "The combined process of capital accumulation, rising per capita incomes (with consequent falling birthrates), the increasing of skills in the population, the adoption of new technological styles, and other related social and economic changes" (2001: 577). Several possible strategies have been proposed, with a varying degree of empirical success, as roads to the ultimate prize of economic development. Neoclassical economists argue that limited government intervention in the economy and the promotion of free trade are the right tools for economic development. The fastest way to join the ranks of the "haves" is to focus on the production of goods in which one country has a comparative advantage. Classical liberals also believe that when governments intervene to help some groups in society, they are merely taking away resources that could have been used more efficiently by other groups. Consequently, keeping the government out of economic decisions about investment, consumption and trade represents the best prescription for the achievement of economic growth. For the Liberals, development is a natural and inevitable process (Rostow 1960). Inept governments, ravenous dictators, and deep-rooted oligarchies constitute the main obstacles in the path to industrialization. Hence, "Neoclassical economists argued that the LDCs' problems were due to government failures rather than […] to market failures requiring government intervention" (Gilpin 2000: 311).

Despite the undeniable influence of the writings of Ricardo and Smith on European lawmakers, economic liberalism quickly engendered a counter-reaction. Mercantilist advocates were not ready to play dead yet. In particular, Friedrich List (1966 [1841]) argued that German states continued with protectionist policies during the 19^{th} century to counter Britain's attempt to dominate the international economic system. List, like many in the developing world during the post-war period, thought that economics should serve politics. Liberalism was just a scheme deployed by hegemonic powers to maintain the international status quo.

The nationalist perspective contains a wide variety of views, which are often in conflict with each other. However, different variants of the school share many similar features. They assume that the most developed areas, at any particular point in time, are more efficient at producing goods and services. According to Wallerstein (1974; 1980; 1989), these industrialized countries (the core) rely on competitive advantage, rather than comparative advantage, to exploit the developing nation-states (the periphery and semi-periphery). The key to this line of argumentation is that the core countries siphon the wealth out of the periphery in an exploitative relationship where the periphery provides a market for the core's over-valued manufactured goods, in exchange for an important supply of its under-valued raw materials. This vicious circle affects the growth of LDCs because they are unable to undersell the goods produced in the advanced economies, which benefit from better capital equipment.

The only way out of this predicament is for the LDCs to cut trade ties with the advanced industrial countries (AICs). By substituting domestic production in place of imports, countries in the periphery and semi-periphery could henceforth stimulate domestic production. Import substitution industrialization (ISI) strategies were first used in Latin America during the 1950s, but before long several developing countries adopted similar economic policies. All these countries relied on high tariffs and provided subsidies to jumpstart their domestic industry.

Despite the generation of a psychological boost throughout the South, ISI strategies failed to produce efficient domestic producers and subsidies only serve to deplete the coffers of LDCs governments. By the late 1970s, ISI strategies were widely discredited and by the 1980s the new "in vogue" development strategy became export-led industrialization (ELI). The failure of ISI strategies led to the belief that the role of the state in the economy should be drastically reduced and that the governments should open their economy to international markets. Therefore, ELI, on the surface, appears to follow the prescription of the liberal school because it emphasizes free trade. Countries adopting this strategy are not only open to international markets, but they are also determined to thrive and compete in those markets. They see export markets as a vehicle to provide the initial boost for economic development. Profits from exports allow the country to increase its manufacturing base, reinvest these profits in education and labor training, and import capital equipment.

The NICs have all adopted ELI as a development strategy. Singapore, Taiwan, Hong Kong, and Korea have all achieved spectacular economic growth by removing trade barriers, reducing, to a certain extent, the role of the government in the economy, and subjecting themselves to the rigors of the market. Neoliberals argued that their economic success was due to market conforming development strategies, rather than to government-led policy interventions (Gilpin 2001: 317). Does that mean the neoliberal interpretation is right and that free trade and limited government intervention explain the success of the NICs? Not according to adherents of the theory of the developmental state (Johnson 1982; Amsden 1989; Wade 1990). The Liberals' prescription might be right, but while Liberals claim that the NICs represent a victory for their philosophy; most NICs have significantly deviated from the liberal model. First, most of the NICs have pushed free trade in their export market only. While some allowed imports of capital equipment, many limited imports of consumer goods during the industrialization process. Second, and more importantly, several NICs had large amounts of government economic intervention in direct violation of the liberal prescriptions. For example, the Korean government dictated not only which firms could enter which markets, but it also welcomed multinational capital investment as long as the production of such foreign companies was destined for international markets. One could argue that, in terms of active government involvement, the NICs on the whole (with the notable exception of Hong Kong) fall closer to proponents of ISI than supporters of liberalism. Government intervention in the domestic and international economy is not a policy that is prevalent only in the NICs. Below we explore the different shades of government interventionism and we compare their impact on economic development.

The NICs' economic success fostered the emergence of a new theory of economic development in the late 1980s and early 1990s. The theory of the developmental state emerged to challenge neoliberalism. Gilpin succinctly explains what is at the core of the controversy:

> Differing with the policy prescriptions of neoliberalism but consistent with development economics, the theory of the developmental state emphasized that the state should play the central role in economic development. The controversy between the proponents of the "developmental state" and of neoliberalism has focused on differing interpretation of the rapid and extraordinary success of the Newly Industrializing Countries (NIEs) of East and Southeast Asia. Neoliberalism argues that the success of these economies has been due to their reliance on the market and the minimal role of the state in the economy. The theory of the developmental state, on the other hand, credits the central role of the state for the rapid industrialization of the East Asian economies (2001: 306).

Gilpin goes on to indicate that the 1997 East Asian financial crisis led neoliberal economists to point to the pitfalls of state intervention. Proponents of the developmental state retorted that the cause of the crisis was not the deleterious actions of the Asian state, but rather the result of international and economic pressures. Our position falls between these two extremes. Our intention is not to absolve the governments of any wrongdoings, but we also want to focus our attention on the forces of globalization and their impact on domestic economies. We begin our explanation with the premise professed by Philip Cerny (1990), among others, that globalization has transformed the economic role of the state and led to a new form of state: the competition state. The competition state, which we discuss more thoroughly in the next sub-section of this paper, emerges in the 1980s as observers become more aware of the impact differences among national economies. Repetitive failures of socialist economies and "Third World" models may have reinforced the belief that the market system reigned supreme, but the enormous success of the Japanese industrial policy, soon to be imitated by the Asian Tigers, rapidly threw a fly in the ointment of laissez-faire politics. Charges of 'uneven playing field' and 'unfair practices' were diligently made from the Right as well as from the Left. While those claims were made, economic convergences among national economies and trade flows signified that any policymaker could no longer keep his head in the sand and he had to pay close attention to other industrial countries' domestic economic model.

Despite all the scenarios of doom and gloom that followed the 1997 Asian crisis, we argue that countries that followed the precepts of the developmental states are capable of adapting to the new laws of the competition state without a great amount of social turmoil[1]. We do not make the claim that the Japanese model is superior to or more efficient than other two models of development. The developmental state model has indeed proven to be a remarkable tool of economic development in some countries, but it does not constitute a magic wand that can be waived at will to cure economic woes in all regions of the world. Socioeconomic factors, unique to each country, must be taken under consideration. It would be disingenuous to argue that a country such as Zimbabwe can follow the Japanese model and find the pot of gold at the end of the rainbow. The Liberals overstated their case during the 1960s by assuming that all countries would go through some phases of economic development (Rostow 1960) and ultimately join the ranks of a small cast of economic elites. In the same vein, strategic industrialization is not a magic potion that can be used liberally to increase economic growth in all cases. However, there are some pro-development factors adopted by the NICs that can be mimicked successfully by LDCs. For instance, investment in education and human capital is a sound policy that worked in countries such as Taiwan and Korea. Boosting investment and savings is also essential to industrialization. This being said, there are also extraordinary and unique circumstances that should be considered. City-states such as Hong Kong and Singapore have small internal markets, such that very few vested interests groups are pushing for ISI strategies. In countries with large domestic markets to protect, the ELI model might not be the most attractive option. This disadvantage, however, can be mitigated by cultural factors such as strong deferment to the authorities and strong relationships between the holders of capital and industrialists. Furthermore, Japan and the NICs were able to flourish in a relatively liberal international economic environment. Particularly, they were the beneficiaries of an American open market policy. As domestic pressure for protection increases in America and Europe, the ELI road to development could become strewn with several potholes.

Above all, we believe that we must avoid being blinded by the recent Asian meltdown. We often tend to discard or praise models of economic development on the basis of short-term developments. After the Asian miracle of the 1970s and 1980s many were ready to give up on the

American model. Now that the table has turned, most Americans as well as many others are convinced that the American economy should be the model for the rest of the world. There is no dispute about the overall success of the American economy in the 1990s, but the jury is still out and "it has not been demonstrated that the United States has created a superior economic model […] [O]ne must remember that it is dangerous to argue that the American or any other economic model is and will be, for all time, superior to others" (Gilpin 2001: 179). With these words of wisdom in mind, we make the modest claim that the developmental state model might be adequately armed to combat the short-term effects of globalization, but we do not pretend that in the long run the Japanese model is in any shape or form superior to other economic perspectives.

Models of National Economies

In order to support our argument, we must first contrast and discuss three contemporary models of national economies: a) The Japanese System of Developmental Capitalism b) The American System of Market-Oriented Capitalism, and c) The German Model of Social Market Capitalism[2]. In the next pages, we discuss at length the Japanese model because we believe it is the economic perspective most closely imitated by the Korean society, and we provide a short comparison with the other two models.

a) Japanese System of Developmental Capitalism

In the late 1980s and early 1990s, the theory of the developmental state arose to challenge the orthodoxy of the neoliberal model. It attempted to explain the rapid economic progress of Japan and the NICs in East Asia. There are many different, and sometimes divergent, interpretations of developmental capitalism, but there also some commonalities. Developmental capitalism involves a concerted governmental utilization of a strategic industrial policy, which goal is the produce goods that can compete on the world market. These export products represent the engine of domestic economic growth. To accomplish this communal goal, the government devises an array of incentives in order to promote firms, which appear to compete effectively and create industrial sectors in which the country will be able to compete (Amsden 1989). In contrast to the American government, which too often makes a retroactive attempt to keep afloat sagging industries, the Japanese strategic industrial policy acts proactively by rewarding firms that can potentially be highly competitive on the international market. It is not always an easy task because the government must use an infant industry argument and anticipate which firms will actually thrive on the international market. Nevertheless Export Led Industrialization (ELI) strategy has a clear advantage over Import Substitution Industrialization (ISI) policy in that it does not promote lethargic domestic-oriented industries, but rather an infant industry geared towards selling in competitive overseas markets. International rivalries compel domestic industries to innovate and constantly reevaluate its standing among the competition (Porter 1990). In consequence, competitive international markets discipline the firms in the long run. In short, the success of Japan and the NICs rests on their ability to create an entrepreneurial class, identify critical areas for development, and exposed their priority sectors to the international forces of competition; thus forcing their strategic industries to become more efficient (Gilpin 2001: 317)[3]. Developmental theorists indicate that under the policy of the developmental state, an industrial base and economic structure would not have arisen without government intervention.

A key aspect of the developmental state is that the industrial policy of the NICs is founded on the assumption that these economies dealt with the consequences of “late late industrialization” (Chandler 1977; Amsden 1989: 8-9). Trying to “catch up” with industrial economies, the NICs faced more extensive market failures, which required an active role for the state to resolve the collective action problems that members of their respective societies faced. In other words, governments in the NICs intervened to motivate industry leaders to work together. Gerschenkron's (1943; 1962) writings more than two decades prior to the emergence of the developmental state theory represent a prophetic study that was applied by the author to the "late" economic development of Russia and Germany, but it could as well been written about the "late late" development in Korea, Taiwan, Hong Kong, and Singapore[4].

Gerschenkron's central thesis rests on the belief that in several important aspects the development of a backward country tends to differ from that of an advanced country (1962: 7)[5]. The difference is not only related to dissimilar rates of industrial growth, but also with regards to the productive and organizational structures of industry/banks/government interactions. Gerschenkron observed that the entire industrialization experience of late industrializers, such as Germany and Russia, is compressed. It took them a decade to achieve what the United Kingdom had accomplished over a century. A significant explanation for brisk economic growth is the observation that late developers take advantage of the latest technology previously introduced by early developers (Gerschenkron 1962: 9). By focusing on the most advanced industrial sectors and by exploiting economies of scale, late developers can rapidly catch up with early developers. In the following statement, Gerschenkron writes of the German experience, but it could be actualized to explain the extraordinary economic expansion of Japan and the NICs:

> Under these conditions the statement may be hazarded that, to the extent that industrialization took place, it was largely by application of the most modern and efficient techniques that backward countries could hope to achieve success, particularly if their industrialization proceeded in the face of competition from advanced countries. […] This seems to explain the tendency on the part of backward countries to concentrate at a relatively early point of their industrialization on promotion of those branches of industrial activities in which recent technological progress had been particularly rapid, while the more advanced countries, either from inertia or from unwillingness to require or impose

sacrifices implicit in large investment program, were more hesitant to carry out continual modernization of their plants (1962: 9-10).

The German experience in the chemical industry, circa 1890s, parallels the Japanese experience in the auto and microchip industries during the 1970s. In addition, late development encourages financial and industrial concentration. Russia's banks inability to attract sufficient funds to finance large-scale industrialization during the 1890s explains why it could never achieve the same level of economic development that Germany had attained during the same period (Gerschenkron 1962: 19-20). Japan and the NICs benefited from similar domestic and international induction of capital and were able to grow rapidly.

The last, and most important, piece of the industrialization puzzle, rests on the compulsory machine of the government which, "through its taxation policies, succeeded in directing income from consumption to investment" (Gerschenkron 1962: 20). Because infant industries require some protection from inexpensive goods produced by early industrializers, Gerschenkron argued that the state is much more involved in the industrialization process for the late developers. Given that governments must intervene directly in economic decisions to foster development, the liberal hands off economic prescription does not appear a well-suited alternative for late developers such as Japan and the NICs in the post-war period. To shatter the constraints on development and lay the foundation for future expansion, the government must intervene in activities ranging from industrial planning, infrastructure development, raising capital for private firms, subsidizing industries, and collecting information. Gerschenkron contends that later developers should have intrusive government agencies, but at the same time, they must avoid the occurrence of an oppressive dictatorial power. He believed that Russians had crossed that line and it explains why it never reached the intensity of development that Germany had achieved.

The similarity between the late industrialization of Germany and the economic experience of the NICs is worthy of note. According to Gilpin, the uniqueness of the East Asian society made it even easier for the state to play a guiding role in economic development:

> In all these societies, the state has been relatively autonomous and therefore able to pursue policies free from public pressure. Yet, this state autonomy was embedded in a society where the state worked very closely with business interest to promote rapid industrialization (2001: 319; see also Evans 1995).

Gilpin adds that Asian collective values, where the economy is subordinate to social and political objectives of society, provided ideological support to the authoritarian regimes of the region. This political economy based on trust and subordination contrasts with the Western-style of compliance and accountability (Gilpin 2001: 319). Deans adds that state ideology reinforced the fusing of public and private order in East Asia: "By stressing the collective over the individual, identifying business interest with national interest [...] the state has been able to achieve [...] greater autonomy" (Palan and Abbott [with Deans] 1999: 79).

Although many of these East Asian states were authoritarian, they also implemented educational and industrial policies that promoted, not only growth, but also social harmony. As Gilpin notes, "a powerful commitment to domestic harmony; and "over-regulation" of the Japanese economy is motivated in part by a desire to protect the weak and the defenseless" (2001: 158). It is however, the tight integration between government and industry that set the developmental state apart from other economic models of development. In a process reminiscent of the close relationship between banks, industries, and government in the Weimar Republic, the process of alliance capitalism in the East Asian NICs made possible the injection of bank capital into carefully selected industries and thus helping the process of rapid industrialization.

These domestic factors might be necessary conditions supporting the Asian miracle, but they are not sufficient conditions. Japan and the NICs benefited from a certain number of international favorable conditions (Gilpin 2001: 319-20). As American allies during the Cold War, these countries received special treatments from their American for security purposes. Furthermore, Taiwan and Korea enjoyed a legacy of Japanese imperialism that left behind a solid economic infrastructure. Finally, these economies were able to pursue an export-led development in a generous global free trade environment.

Changes to these auspicious international conditions may have led to a severe blow to the Japanese economy in the early 1990s and to the East Asian economies in the summer of 1997. Although by the summer 2000 these stricken nations were already coming out of their respective financial crisis, it will probably take them several more years to fully recover from their devastating setbacks. The initial international conditions of the 1980s have changed and the Asian economies must now adapt to the new forces of globalization[6]. We discuss the impact of the new international environment further below.

b) The American System of Market-Oriented Capitalism

The primary purposes of economic activity in the American society are the welfare of its consumers and the preservation of the autonomy of the market (Gilpin 2001: 150). Distribution of wealth takes a back seat to the primary goal of maximizing wealth itself. In order for the market to remain competitive, some economic inequalities in society are admissible. Nevertheless, the New Deal of the 1930s put a dent in the system of managerial capitalism: “The neoclassical laissez-faire ideal was diluted by the notion that the federal government had the responsibility to promote economic equity and social welfare” (Gilpin 2001: 151). Following the

Reagan election in 1980, the welfare ideal of the post World War II era came under pressure. Since then, the American society is divided between two ideals; one that seeks a more activist government to protect the welfare of the individual consumer, versus another that calls for unfettered competition as the best protection for consumers against market failures.

Reality falls in between these two-ideal types. The federal government does not take a concerted industrial strategic role akin to its Japanese counterpart (with the notable exceptions of the agricultural and national defense sectors), but it does strive to establish a neutral environment for business. In the American psyche, the primary economic responsibility of the government is to regulate the economy, provide public goods, and eliminate market failures (Gilpin 2001: 153). This represents a monumental task because the American government does not present a united front such that, with the exception of the Federal Reserve's monetary policy, authority over the economy is divided among the executive, legislative, and judicial branches. Under these circumstances, the possibility of a concerted industrial policy revolving around tight bonds among banks, industries, and government belongs to the world of science fiction. Furthermore, policy coordination is neither viewed as desirable. In a society where the business structure is fragmented and dispersed, attention to the demands of stakeholders is prime. In this environment, close integration among government, capital and industry is neither possible, nor desirable.

c) The German Model of Social Market Capitalism

The German model of social market capitalism engulfs some aspects of both the American and Japanese economic models, but it also has its own attributes. The purpose of its economic activity falls squarely between the two other models; its government role is tantamount to that of the United States; but the structure of its corporate sector resembles that of Japan. On one hand, it shares the Japanese onus on the desirability of strong exports and savings, while underplaying the economic role of consumption. On the other hand, the German model is geared towards an Americanized free market with only a subtly interventionist government.

Since the Bismarckian era, the German unique blend of classical liberalism and corporate welfare state involves a high level of cooperation between capital, organized labor, and government in the provision of public goods. The role of the German state is less intrusive than that of the Japanese state. Its role in the political economy of the nation is mainly through its central bank, the Bundesbank. This quasi-independent institution plays an important part in the management of the German economy with its staunch anti-inflation position and combative defense of the mark. The German government's microeconomic position is modest in comparison to other industrial states. Its intervention is limited to a strong commitment to funding research and development and it does not rely on activist industrial policy (Gilpin 2001: 170).

Although less formal than the Japanese *keiretsu*, the integration of finance and industry is a noteworthy feature of corporate governance in Germany (Gilpin 2001: 171). Corporate governance in Germany, however, has the singularity of involving labor in the decision-making process. Furthermore, as we discussed above, Germany's status as a "late" industrializer led to a close link between bank and industry. The result of these strong bonds between capital and industry is the emergence of an oligopolistic structure of the industry.

All three national economic models incorporate some forms of welfare provision. Over the last decade, a debate rages over the impact of the forces of globalization the role of the state. Some argue that in this era of globalization, the new "competition" state can no longer support those welfare policies. If the proponents of the competition state are correct, how is each national economic model capable to weather the storm? In other words, how can they "adapt" to this new international environment without causing a great amount of domestic instability?

Globalization and the Emergence of the Competition State.

Globalization is fast becoming the most often used cliché of our times[7]. It is not our intention to add fuel to the debate over the definition and significance of globalization, but we bring up the topic to estimate its impact of the potential reorientation of domestic economic strategies. According to neoclassical convergence theory, economic interdependence is (or, at the least, will) lead to a convergence in economic performance among national economies. Some even argue (Cerny 1990) that economic globalization necessarily forces convergence of the structural features of an economy and of private economic practices, and that, therefore, national differences will disappear[8]. Eventually, these centripetal forces will lead to the end of the welfare state (Gray 1998). Even if these claims proved to be right and that indeed independent domestic economic strategies are converging towards a 'one size fits all' strategy associated with the competition state, we should still expect different experiences in regards to the transitions from previous functions to this new economic paradigm:

> Given this changing global order, the forms and functions of the state are having to adapt as governments seek coherent strategies of engaging in a globalizing world. Distinctive strategies are being followed from the model of the neoliberal minimal state to the models of developmental state (government as the central promoter of economic expansion) and the catalytic state (government as facilitator of coordinated and collective action) (Held *et al*. 1999: 9)

Much has been said about the impact of this transition on European countries, but very scant attention has been paid to the fate of the East Asian states. We should not assume that the transitional experience is similar across the globe. It would be too easy to blame the recent Asian meltdown to the inability of Japan and East Asian economies to adapt to the new international market forces. We prefer to approach the problem analytically, and not be swayed in our conclusions by short-term economic conditions in the region. In particular, our analysis pays attention to Cerny's (1990) three domestic structural shifts associated with the rise of the competition state: 1) from macroeconomic to microeconomic interventionism; 2) from strategic to flexible industrial policies; and 3) from maximization of welfare to promotion of markets. We reach the conclusion that the transition from the developmental state to the competition state could be much less chaotic than the recent Asian meltdown would lead us to believe. Part of the reason is that the structural changes that Cerny discusses in a series of publication do not constitute sudden shifts in the international economic environment, but are rather the fruit of a long process. Hence, the 'late late' industrializers have been 'adapting' all along. In fact, Cerny himself suggests that the 'developmental state' is an early representation of the 'competition state' (2000: 304). There is still cause for concern for East Asian leaders, but the transformational process is not likely to lead to the collapse of their economies and social domestic structures. In this section of the paper, we provide a brief theoretical background regarding the transition to the competition state. In the next section, we attempt to support our argumentation with an application to the Korean case.

The transformation of the existing state is associated with the decline of the Keynesian welfare state. While the normal reaction is to associate the welfare state with the corporatist European state or the American New Deal, the welfare state casts a wider net that also ensnares the developmental states. For Cerny, the welfare state is the product of the "Great Transformation" (Polanyi 1944) during which industrial states, especially since the Great

Depression, have tried to insulate certain key elements of their economic life while promoting other elements of the market:

> These mechanisms did not merely mean protecting the poor and helpless and pursuing welfare goals like full employment or public health, but also regulating business in the public interest, 'fine tuning' business cycles to promote economic growth, nurturing 'strategic industries' and 'national champions', integrating labour movements into corporatist processes to promote wage stability and labour discipline, reducing barriers to international trade, imposing controls on 'speculative' international movements of capital, and the like (2000: 301)

Seen under this light, certain elements of the Japanese system of developmental capitalism are tantamount to the industrial welfare state. Certain observers of international economic conditions now contend that because of the globalization of financial markets and the transnational integration of markets, "the policy-making options available to national governments were significantly diminished" (Phillips 1998). Simply put, the state cannot maintain its power in dealing with the redistribution of resources at the local level. In this context, the traditional state tends to be changed into the competition state. This emerging competition state involves a transformation of the policy roles of the state (Cerny 1997: 263). Cerny (1997: 257-58) is quick to point out, however, that this transformation of the state as the globalization process takes shape, does not equate the disappearance of the bureaucratic state, but rather involves a reincarnation of the state as an 'enforcer' and 'stabilizer' of the rules and practices of the global society[9]. Hence, the competition state is a 'willing' partner, in fact the leading actor in this new global dramatic act, not an unfortunate victim of the globalization process (Hirst and Thompson 1996a, 1996b; Hirst 1997; Weiss 1998). In doing so, however, the state must 'reinvent' itself and adapt to self-imposed global parameters (Held et al. 1999: 7). We discuss here three such fundamental shifts first highlighted by Cerny (1990).

The first trend is a shift from macroeconomic to microeconomic intervention policy, as reflected in both deregulation and industrial policy (Cerny 2000: 302). Cerny argues that “in an open world economy, the equilibrium point of macroeconomic policy can no longer set by [sic] a domestic political target such as full employment, but results from competitive conditions and terms of trade in the international economy” (1990: 222).

The second response to a redefined international milieu is a new form of interventionism from the development of a range of strategic industries to one of flexible response to competitive conditions. The nation-states are finding themselves in an increasingly weaker structural position and they have less room to maneuver; they are “condemned to tinker on the edges” (Cerny 1995; 611, see also Reich 1991).

A third alteration of the role of the state is a reconsideration of welfare maximization in exchange for the promotion of the enterprise, innovation and profitability in both private and public sectors (Cerny 1997: 260). Despite the resilience of welfare policies, significant elements of the broader welfare state model have been squeezed out by the structural constraints of economic policymaking (Cerny 1990). This encompasses the changing role of the state in redistribution of public goods, including financial resources. The state is no longer in a position to pursue the general welfare as if it were mainly a domestic problem (Cerny 1990: 230).

In summary, the competition state must now play by the rules of the international game and refrain from traditional forms of industrial policy, such as subsidies to industry, national procurements or trade protectionism. It limits its intervention to the promotion of a relatively favorable investment climate for transnational capital (Cerny 1995: 611). The ‘reinvented’ state invests in human capital by the pursuit of socioeconomic policies that seek to increase the skills, level of education, training, and experience of its labor force. It also strives to improve its domestic infrastructure in domains ranging from public transportaion to the information super-highway. In addition, it provides support for a critical mass of research and development, as well as for basic public services necessary for a good quality of life. Finallly, it maintains a public policy environment favorable to investment and profit-making by domestic and international firms. Taken together, these guiding principles constitute a “best response” strategy to an international economic environment in constant evolution.

This reorganization of the strategic activities of the state does not come without social costs. The foundations of the competition state rest on a long-term perspective. In the meantime the structural adjustments associated with the break up of the welfare state can potentially wreak social havoc. To put it colloquially, ‘things have to get worse before they get better.’ Paradoxically, it is the same global forces reflecting a shift from the centrality of government to more decentralized forms of governance (Jessop 1999), that also represent a saving grace for domestic governments. Leaders from industrial countries rely on a ‘tying hand strategy’ to redirect social protest and domestic hostility from the national arena to international fora. Over the last twenty to thirty years they have constructed international regimes that limit their ability to act unilaterally in the international economic system. They can now conveniently point out to these international rules for the necessity to enact painful national economic adjustment policies. It is therefore not surprising that an increasing number of protest groups are targeting international economic organizations at such locales as Seattle, Québec City, and Genoa. This, in some way, takes the pressure off national leaders and redirect the protests towards the ‘dark and impenetrable forces’ of globalization.

Despite a convergence in national economic policies towards the competition state economic paradigm, there are unique domestic responses. The trajectory from traditional forms of the state to the emerging competition state differs from country to country on the basis of different national economic ideologies and past practices. In particular, the experience of early developers is much different than that of late developers. The end point might be similar, but none of the industrial nations have come out the gate at the same time. The current status of the literature on this topic does not yet account systematically for those national differences. In the spirit of intellectual cumulation, we now turn to an application of this theoretical framework to the case of Korea.

3. State Transformation in Korea

In this section, we use Cerny's three "shifts" in the character and nature of the state to examine whether a state transformation took place in Korea under the Kim Dae Jung government for the first three years following the economic collapse of 1997. All these shifts are primarily based on Cerny's observation and analysis of the West European cases. Our purpose here is to probe whether similar changes are also occurring in Korea.

The First Shift: From Macroeconomic to Microeconomic Interventionism

A more open world economy and a greater level of globalization, according to Cerny (1990: 222), will make it more and more difficult for individual states to set and attain domestic macroeconomic goals such as full employment, stability, and growth. Whereas states lose their control over macroeconomic variables, competitive conditions and terms of trade in the international economy will increasingly affect and eventually determine the performance of individual economies. The competition state, which emerges because of increased economic integration and competition, will hence place more emphasis on microeconomic interventions, playing an active role in regulation intended to promote competitiveness.

In the heydays of Korea's development during the 1960s-1990s, the state was the planner and director of the drama of 'economic miracle,' closely monitoring microeconomic and macroeconomic indicators. The developmental state in Korea was more or less able to set export targets, growth rates, foreign exchange rates, employment levels, and industrial output goals, using a variety of monetary, fiscal, and regulatory policy tools.

The economic crisis in 1997 has significantly changed the situation. The crisis was such a shock to most Korean people that a broad national consensus readily emerged regarding a dire need to carry out a comprehensive and fundamental reassessment of Korea's entire developmental experience and trajectory. To both ordinary citizens and policy makers in Korea, economic reform and restructuring loomed as an extremely urgent task that could no longer be ignored or postponed. As a result, the Kim Dae Jung government from the very beginning approached the economic crisis in a very serious manner, trying to find the fundamental causes of and cures for the crisis. The International Monetary Fund (IMF), which gave an unprecedented $57 billion loan package to Korea, also shared such a holistic approach to the crisis.

The solution the Korea government ultimately found and the IMF endorsed was a neo-liberal economic restructuring program centered upon, *inter alia*, markets liberalization, a financial overhaul, corporate reform, and flexibilization of labor market. The beginning of a neo-liberal restructuring program meant that the Korean state no longer had control over macroeconomic variables. Unemployment rates soared, growth rates turned negative, and long-term stability of the economy was in deep doubt. The conditions imposed by the IMF restricted the Korean government's macroeconomic policies even further. As Mikesell points out, "the restrictive macroeconomic policies required by the IMF have resulted in high interest rates and a reduction in consumer purchasing power and business credit, which in turn have caused recession, low investment, and unemployment" (2000: 407).

Meanwhile, the increasing presence of foreign capital, which is one of the direct outcomes of the neo-liberal restructuring in Korea, means decreased state influence and interventionism. The Kim government found it difficult to target the foreign exchange rate due to the increasing in- and outflow of foreign capital. Having lost its capacity to impinge on macroeconomic indicators, the Korean state has instead focused on microeconomic policies, particularly with respect to the "four major reform areas"—i.e., financial, corporate, labor, and public sectors[10]. According to a Ministry of Finance and Economy's economic policy report, financial, corporate, labor, and public sector reforms had three objectives: 1) to pursue 'software' reforms by expanding market infrastructure and revamping old-fashioned management style; 2) to enhance competitiveness by promoting profitability and technical innovation; and 3) to make the market mechanism work more efficiently (MOFE 2000). As is obvious from these objectives, macroeconomic policies aimed at full employment or stable exchange rate were no longer a primary target in economic decision-making.

In financial reform, the Kim government has carried out a series of successful measures. First, the government closed or merged insolvent financial institutions and strengthened the capital base of viable ones, writing off nonperforming loans and recapitalizing financial institutions. In January 1998, the Kim government nationalized two commercial banks (Korea First and Seoul) and sold them to foreign investors. In April 1998, the government announced that 12 banks had failed to meet Bank for International Settlement (BIS)'s capital-adequacy requirements and asked them to submit restructuring plans. By April 1998, the government revoked licenses of 13 out of 30 merchant banks, suspended one merchant bank and two securities firms, and closed one trust company. On June 29, 1998, the government suspended five commercial banks and ordered them to merge with stronger banks. In the remainder of 1998, the government committed almost $50 billion in additional public funds to recapitalization, deposit protection, and the purchase of nonperforming assets. Because of all these reform measures, stability returned to the financial markets. “More and more financial institutions are focusing on profitability rather than sales growth” (SERI 2000).

In labor reform, the formation and evolution of the Tripartite Commission of Labor, Business, and Government has been most noteworthy. This is the first attempt in Korean history to formally establish and develop a pact among major social actors through a form of societal corporatism. The Tripartite Commission was established on January 15, 1998. On February 9, 1998, the Commission announced a “Social Agreement for the Overcoming of the Economic Crisis,” reflecting the grand compromise between labor and business on difficult issues of layoffs and restructuring. Labor agreed to more permissive rules on layoffs and the employment of temporary workers. Government pledged to improve labor rights and combat unemployment. Business agreed to reform its corporate governance. However, the two participating national labor confederations (The Federation of Korean Trade Unions and the Korean Confederation of Trade Unions) later bolted the tripartite committee, complaining that the government had not consulted them adequately regarding structural adjustment policies and also had not enforced many of the agreed measures. As of 2001, the Commission is virtually defunct because of the non-participation of the two national confederations.

The last major reform area—public sector or administrative reform—has been quite effective. Even the critics of the Kim Dae Jung government admit that public sector reform has been smooth and successful. The public sector reform has so far focused on the reorganization and restructuring of the government. In late 1998, the Kim government restructured and reorganized the central government, particularly streamlining, consolidating, and merging budget-related agencies. Throughout 1998, the government reduced 10% of local administrative personnel.

Although labor reform has been slow due to the failure of the Tripartite Commission, financial and public sector reforms have been rather successful. Korea today seems to be on its way to recovery, ending years of recession and restructuring. The growth rate for 1999 was 10%. Exports increased, led by semiconductors, automobiles, Liquid Crystal Displays (LCDs), and mobile phones. Foreign investment exceeded the total of the previous 40 years. Foreign reserves increased from $3.9 billion at the end of 1997 to $74.0 billion at the end of 1999. Korean won, which had reached a low of 1,965 to the dollar, was trading at 1,181 in February of 1999 (Beck 2000). In addition, domestic industrial output began to rise in the fourth quarter of 1998 after four consecutive quarters of negative growth. Not surprisingly, observers have citied Korea as an example of economic restructuring and recovery (Stiglitz 1999).

The Second Shift: From Strategic to Flexible Industrial Policies

According to Cerny, the transition to a competition state inevitably entails another important change in the role of the state. The focus of state's economic policies moves from selecting and supporting a set of strategic industries to developing flexible industrial policies that can respond and adapt effectively to the ever-changing international competitive conditions (Cerny 1990: 225). As nation-states find themselves in a growingly powerless position in the global market structure, it becomes extremely difficult, if not meaningless, to choose and sponsor a few national "strategic" industries. Instead, frequent and sound measurement and comparison of competitiveness of various industrial sectors and the consequent speedy adjustments in policy priorities and measures assume increasing importance.

Of the four major reform areas—i.e., financial, corporate, labor, and public sectors—the Korean government has placed the greatest emphasis on corporate restructuring. This was primarily based on a crucial consensus between the Korean government and the IMF. Both the Kim government and the IMF shared a diagnosis that one of the most serious causes of the 1997 crisis had been chaebol's over expansion, mismanagement, and inefficiency during the 1980s and 1990s. Above all, Kim Dae Jung himself made unequivocal the anti-chaebol tone of his restructuring policy in his inaugural address: "the economic crisis in Korea was due to the collusive relationship between the government and business, the state-controlled financial sector, and the octopus-like over expansion of the big business conglomerates" (http://www.cwd.gov.kr; 1998-02-26).

In chaebol restructuring, the Kim government has specifically concentrated on five core issues. The first is to transform chaebol's ownership structure, separating ownership from management. The second is to reform chaebol's corporate governance through consolidated financial statements, independent external audits, and reduction of intra-group mutual payment guarantees. The third is to streamline operations by selecting three or four core business lines and cutting unrelated subsidiaries ('Big Deals'). The fourth is to decrease debt-equity ratio. The fifth is to increase chaebol's transparency and accountability (Beck 1998).

The Kim government, well before its inauguration, reached an agreement with chaebol leaders on all these outstanding issues of chaebol restructuring and subsequently carried out various reform policies. First, the Kim government pushed for revision of the Outside Auditor Law to facilitate the adoption of consolidated financial statements and to mandate firms to establish an “outside auditor selection committee.” Second, beginning on April 1, 1998, the government prohibited any new intra-chaebol mutual-payment guarantees and ordered the phase-out of the existing guarantees by March 2000. Third, the Kim government directed banks to negotiate financial restructuring agreements with chaebol groups to reduce outstanding debt. Lastly, the government also used the banks to close insolvent firms and to pressure the chaebol to streamline their business activities by liquidating and consolidating subsidiaries, by exchanging subsidiaries among themselves, and by other restructuring measures (Mo and Moon 1999: 156-157).

The Kim government’s corporate restructuring, however, does not seem to amount to a movement from the past ‘strategic’ industrial policies to more ‘flexible’ ones. This is most evident from the way in which the government set up and carried out the policy of ‘big deals.’ This was a policy of encouraging, if not forcing, large business groups to swap their subsidiaries for specialization. The corporate swapping among the chaebols was for reducing their overcapacity and increasing specialization based on international competitiveness. The streamlining of the structure of conglomerates was also one of the conditionalities of the IMF loan. In implementing the ‘big deals’ policy, the Kim government targeted eight major industries such as semiconductors, petrochemicals, automobiles, aerospace, railway vehicles, power generators and ship engines, oil refining, and electronics. In selecting these ‘strategic’ industries and imposing on chaebol companies a pre-determined blueprint for better performance, the Kim government deviated little from the past developmental state model (Chang and Yoo 2000).

Furthermore, the corporate restructuring policy of the Kim Dae Jung government replicates some of most important characteristics of a typical developmental state in that “the state directs an alliance of business groups (chaebol), banks and state agencies, using positive and negative instruments to achieve desired economic outcomes such as involving local capital in export industries" (O'Hearn 2000: 81). Therefore, in Korea, Cerny's second shift from strategic to flexible industrial policies has not yet taken place in the restructuring program of the Kim Dae Jung government.

The Third Shift: From Maximization of Welfare to Promotion of Market

According to Cerny, the third change associated with the emergence of a competition state is a shift in the focus of party and governmental politics from maximization of general welfare to promotion of market and enterprises. As compared with the past when the state could and had to respond to a variety of welfare-related demands of civil society, now globalization compels the state to compromise welfare to augment competitiveness of industrial sectors and enterprises. In other words, "the state has in many ways been sucked in—not only into civil society but also into the competitive rat race of the open world economy" (Cerny 1990: 228). Consequently, "the aim of social justice through redistribution has been challenged and profoundly undermined by the marketization of the state's economic activities and by a new embedded financial orthodoxy" (Cerny 2000). The state must now actively re-evaluate and 're-articulate' its various functions (Jessop 1999).

This shift from welfare maximization to market promotion is most problematic in the case of Korea. Above all, unlike many West European countries from which Cerny derived his theoretical conclusions, Korea has never had a welfare state and hence has never pursued 'maximization of welfare' as a national goal. Rather, 'maximization of exports and economic growth' was the national goal of most previous Korean governments. Harsh repression of the labor class and violation of basic labor rights have been a hallmark of Korea's 'economic miracle from the early 1960s up to the mid-1980s. Since the public suicide of Chon T'aeil, a frustrated labor activist who set himself afire in 1970, up to the democratic transition in 1987, the history of state-labor relations in Korea was characterized by labor's constant struggles for basic human rights, and the state's adamant and brutal denial of welfare.

Overall welfare of Koreans in general and Korean workers in particular improved considerably in the 1987-1997 period, principally due to rapid expansion of labor movement and labor-friendly legislations in the National Assembly. Since the economic crisis in 1997, however, it has aggravated again. The Kim Dae Jung government's neo-liberal restructuring and pro-flexibilization labor reform has adversely affected Korean workers.

The first and most important impact of the economic restructuring is unemployment. The Kim Dae Jung government, based on the agreement among labor, business, and government at the Tripartite Commission, legalized massive layoffs in 1998 and has since carried out policies to make labor market more 'flexible.' The unemployment rate for the first quarter of 1998 recorded 5.7%, a 2.6% increase from that of the same period in 1997. In the public sector, six public companies including Pohang Steel Corporation were privatized and 18% of public sector workers (131,000 persons) were laid off during the 1998-2000 period, and additional 12,800 people were let go in 2001. In the financial sector, by October 2000, 498 companies were consolidated, and 68,000 employees (24.8% of 276,000 financial workers at the end of 1997) were laid off (KDLP 2001). Korean workers suffer tremendously from their job loss, particularly because Korea has not yet developed an extensive social safety net system.

Even with respect to those relatively luckier workers who have not lost their jobs, their wages have significantly decreased. The economic growth rate for 1998 recorded -3.8%, which was the first minus growth rate after 1980. Real wage increase for 1998 was -9.8%. As of late

November 1998, 65.8% of the firms that reached a wage agreement with their unions froze their wage level. 18.8% of the firms even decreased the wage level. Also, the number of labor disputes increased from 78 in 1997 to 129 in 1998 (Ch'oe et al. 2001: 635-638). Meanwhile, the proportion of labor wages vis-à-vis GDP has also continually decreased over the past few years from 48.8% in 1996 to 47.2% in 1997 to 45.2% in 1998 to 43.1% in 1999 (KDLP 2001: 267).

Moreover, income inequality has substantially aggravated since the economic crisis. Comparing 1997 and 2000, income of top 20% increased 6.9%, whereas that of bottom 20% decreased 7.6%. Where the income level of top 20% is 100, income of bottom 20% decreased from 22.3 (1997) to 19.2 (2000); income of 20-40% group decreased from 36.6 to 32.5; income of 40-60% group decreased from 48.0 to 43.9 (KCTU 2001: 16-17). The Gini coefficient, a key measure of income disparity, where 1 signifies total disparity among the classes and 0 indicates completely equal distribution, was steady at a level of 0.283 during 1990-1997 but jumped to 0.316 in 1998 and was 0.321 in 1999. It was 0.321 in the first half of 2000. Also, in terms of public perception, those who think of themselves as middle class decreased from 63.7% before the crisis to 48.8% in 1998, and to 38.4% in 1999. Those who think of themselves as lower-income group members increased from 50.4% in 1998 to 61.3% in 1999 (Korea Insight 2, 11: 1). Even a National Assemblyman of the ruling party acknowledged that the rich got richer the poor got poorer during the Kim Dae Jung government (interviews, May 2001).

Lastly, "the fiscal deficit in Korea increased to 4.2% of the GDP in 1998. The national debt recorded 108.1 trillion won at the end of 1999, up 65% from the 65.6 trillion won at the end of 1997 (Yu 2000). As a result, these huge fiscal deficits made impossible to implement comprehensive welfare policy. Aggravating labor conditions and lack of resources for a comprehensive social welfare make it clear that a shift from a welfare state is not taking place in

Korea. To begin with, Korea has no welfare state to move *from*.

The historical and current absence of a welfare state in Korea is only part of the reason why Cerny's last shift does not apply well to the Korean case. The other part of the equation—i.e., shift *to* promotion of market—has also been neither clear nor smooth. From the beginning, the Kim government's reform politics and policies have been encapsulated by and anchored in the philosophy or theory of a 'parallel development of democracy and a market economy.' Kim diagnosed: "If Korea had developed democracy and a market economy in parallel, collusion between the government and business (and therefore massive corruption) would not have occurred, and the disastrous and painful financial crisis could have been averted" (http://www.cwd.go.kr, 1999-02-26).

The ultimate goal of economic restructuring therefore has been a transition to a market economy. However, there is no indication that the developmental interventionist state, which had been a crucial feature of Korea's industrialization process over the past few decades, has actually weakened. Rather, as compared with previous regimes—and particularly compared with the Kim Young Sam government—the state has become more powerful and more interventionist. In particular, the Korean president remains powerful, spearheading nearly all reform processes. The most serious phase of economic restructuring began only after Kim Dae Jung pledged in the autumn of 1998 that he himself would take care of chaebol's structural adjustment. Almost all economic policies have been initiated and led by the president (*Hangyoreh 21* [Hangyoreh Weekly] January 14, 1999). The Korean president, enjoying virtually 'imperial' power, is directing the entire process of economic restructuring, sometimes circumventing formal institutions in the political system (Mo and Moon 1999: 163). In this respect, Korean president, characterized by 'charisma leadership,' still serves as a 'policy commander,' not a 'policy broker'

(Hahm 1999: 12).

In summary, the process of the economic restructuring under the Kim Dae Jung government has been rather paradoxical. On the one hand, the strong state and president have been effectively dealing with and overcoming the economic crisis, achieving relatively speedy economic recovery. On the other hand, the strong state and president have been undermining the long-term goal of economic restructuring—a transition to a market economy. As a result, the anticipated transition to a market economy still has a long way to go.

4. Conclusion

Have globalization and the post-crisis neo-liberal restructuring from 1997 to 2001 brought about a state transformation in Korea? Our answer to this question in this paper is at best tentative. Cerny's first shift from macroeconomic to microeconomic interventionism is evidently taking place. But the second shift from strategic to flexible industrial policies is nowhere to be found. Neither is the third shift from welfare maximization to market promotion. The emergence and expansion of a competition state, which is rather obvious in some West European countries from which Cerny derived his general conclusions, is by no means manifest in Korea. Thus, the international forces of convergence described by Cerny might not have such a universal reach as first thought.

The developmental state is still influential and strong in Korea. The post-crisis recovery process has consistently been led by the state—still powerful, resourceful, reputable, and profoundly interventionist. What played a crucial role in Korea's recent economic recovery have been a charismatic president and an effective bureaucracy. The developmental state in Korea, which played such an essential role in the dramatic economic expansion in the postwar period, does not seem to lose its influence and appears to maintain, if not expand, its power and influence through the ongoing process of economic recovery. In the case of Korea, at least, globalization is associated with the transformation (Giddens 1990, 1996; Camilleri and Faulk 1992; Ruggie 1993; Linklater and MacMillan 1995; Sassen 1997; Rosenau 1997) or even with the resurgence of state power (Weiss 1998), not with its demise (Ohmae 1990, 1995).

To the benefit of the developmental state in Korea, the recent economic downturn failed to discredit the state. In many countries where the transition to market economy is occurring, the government's ability to launch and pursue economic reform is greatly affected by the degree to which the reform politics excludes, discredits, and marginalizes major political actors and organizations from the old regime (Nelson 1995: 46). In Korea, economic crisis was not really accompanied by such a process of 'discrediting the state.' Undoubtedly, the Kim Young Sam government was viewed responsible for the 1997 economic crisis. But Koreans in general considered that the private sector, particularly the chaebol, is far more responsible for what had happened (S. Kim 2000a). The developmental state itself was never discredited or marginalized in Korea, which explains why it is still strong today.

Now, is the continued presence and influence of the developmental state necessarily bad? Does the continued persistence of the developmental state militate against the emergence of a competition state, which is essential in coping with the challenge globalization? Our answer to this question is in the negative. As compared with the transition from a welfare state to a competition state occurring in West European welfare states and other social democratic systems, the transition from a developmental state to a competition state Korea is currently undergoing can be smoother and more efficient. First, with respect to the shift from strategic to flexible industrial policies, what the Korean developmental state needs to undertake is just a perceptual change. The developmental state in Korea needs to shed its old way of statically determining 'strategic industries' and instead must be able to dynamically assess ever-changing circumstances of the global economic structure and to detect most competitive industrial sectors it can sponsor and promote. The developmental state in Korea, as compared with many welfare states in Western Europe, is still staffed with most capable and disciplined policymakers and bureaucrats who are extensively knowledgeable about industrial planning and promotion of productivity. The challenge is to convert the existing repertoire of personnel and expertise into rigorous research and analysis of global trends and historic changes.

Second, the developmental state in Korea, as compared with welfare states in Western Europe, is relatively independent of various social forces and class interests in civil society. In the past under the authoritarian regimes, this relative autonomy of the developmental state used to constitute the basis for repression and coercion. However, in the new democratic setting Korea is enjoying today, the relative autonomy of the developmental state can be conducive to speedy establishment and enforcement of various industrial policies and reform measures. Timing is everything in the competitive global economy, and extreme social divisions and the resultant policy immobilism can have considerably negative effects on the promotion of competitiveness and the performance of national economy.

Korean translation of crisis (*wigi*) is composed of two different characters: *wi* (danger) and *gi* (opportunity). The persistence of the developmental state in the Korean economy might be a danger to some extent, because it was originally part of the multiple causes for the crisis in 1997. At the same time, however, it can certainly be an opportunity, if Koreans exert planned and concerted efforts to convert the developmental state into a competition state.

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Endnotes

[1] For a counterpoint see Wade (1998). Wade shares our contention that economic success is dependent on evolving institutional arrangements and that the Japanese developmental model of state-led industrialization and capital accumulation is appropriate for economic takeoff, but his analysis diverts from ours by indicating that the American system of maximizing returns through the maximum allocation of existing capital stock and national savings is better suited to maintaining economic stability in an industrialized economy. A short-term perspective, especially in relation to the Asian meltdown, gives credence to Wade's thesis. Yet, his perspective does not account for the profound changes in the international economic environment that occurred in the last two decades. In this paper, we take a long-term perspective and we argue that the transition from the developmental state to the competition state could be 'smoother' than one would anticipate. See also Katzenstein (1985) who makes a strong case for the superiority of the corporatist small European states, and Hart (1992) who posits that systems with one dominant social actor in the realm of industrial policy (Britain, France, the United States) tended to do worse in postwar international competition than systems with two (Germany and Japan): "A coalition of either the state and business (Japan) or business and labor (Germany) seems to be more conducive to the diffusion of new technologies than one-actor dominance" (1992: 292).

[2] Gilpin (2001: 148-83) and Johnson (1982: 19-22) inspired this comparison. Gilpin pays attention to the following three factors: (1) the primary purposes of the economic activity of the nation, (2) the role of the state in the economy, and (3) the structure of the corporate sector and private business practice. Since our paper is concerned with the transformation of the Korean state, we concentrate on the second factor, but to the extent that the other two criteria have an impact on the role of the state, we also mention those.

[3] The Japanese model should not be applied as a blanket statement to other NICs. There are several aspects of the Japanese experience that does not correspond the experience of the four dragons. For example, the degree to which international commodities were barred from entry into a domestic market varies from one NIC to another. In the empirical section of this paper we focus our attention more particularly on the South Korean experience.

[4] Johnson does not cite Gerschenkron's seminal study, but he may have been inspired by it when he wrote that "Japan's political economy can be located precisely in the line of descent from the German historical school" (1982: 17). In another passage, he adds that "in states that were late to industrialize, the state itself led the industrialization drive" (1982: 19).

[5] Business economist Alfred Chandler proposes a similar thesis. He shared Gerschenkron's view that the timing of economic development affects the institutional nature and appropriateness of an economic system. More particularly, Chandler suggests that, in fact, new institutional and societal restructuring is necessary to take advantage of new technology. We interpret his position as indicating that a laissez-faire economic policy might be more appropriate for early industrializers, while a strategic industrial policy might be better suited for late developers.

[6] It is not our contention that the 1997 financial crisis can uniquely be blamed on the pernicious behavior of international markets, as would suggest developmental state theorists. To a certain extent, the developmental state contained the seeds of its own destruction (Gilpin, 2001: 330). The explosive growth in the region encouraged sloppy banking practices. Due to a tight relationship between large industrial leaders, bankers and government officials, loans could be

contracted over a handshake at a golf outing. Banks were also allowed to hide non-performing loans to loose governmental disclosure requirements. Governments also played a proactive role in acting on behalf of the industry to secure loans from the banking sector. This created a false sense of security and the belief that governments would bail out the banking sector if the economy turned for the worst. Banks had no incentive to avoid risky loans, especially if those loans were backed by the government's consent. In sum, "the developmental state created moral hazard that ultimately led to the crisis" (Gilpin, 2001: 330). Others argue that the difficulties of the Asian economies are not the consequence of developmental state strategies, but rather the result of a move away from such strategies (Pempel, 1998). The Asian meltdown "has been characterized by a shift from the dominance of technological institutions to the rising influence of pecuniary institutions – or a shift from making goods to making money" (Palan and Abbott, 1999: xi).

[7] A quick search on the Library of Congress catalog reveals that they are 1399 books published on the topic of globalization, as well as another 217 books, which uses the British variant "globalisation." We also looked for the French translation, "mondialisation," and we uncovered another 159 books. Furthermore, Columbia International Affairs Online (CIAO) contains another 1032 articles and conference proceedings on the issue of globalization/mondialisation.

[8] This point of view is strongly contested by a plethora of authors who cast some serious doubt on the idea that globalization has immobilized national governments in their conduct of economic policy (Scharpf, 1991; R.J.B. Jones, 1995; Ruigrok and Tulder, 1995; Hirst and Thompson, 1996b).

[9] Some authors go even further by stating that globalization, rather than bringing about the 'end of the nation state', encourages a variety of adjustment strategies and, in certain respects, a more activist state. Hence the power of national governments is not weakened by globalization but on the contrary is being modernized in response to the mounting complexity of governance in a more unified world (Rosenau, 1997; as cited in Held *et al*, 1999: 9)

[10] In this section, we focus on reforms in the financial, labor, and public sectors. We exclude corporate restructuring because it is more related to Cerny's second shift, i.e., a shift from strategic to flexible industrial policies. We deal with chaebol restructuring in the next section.