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*Publication date:*
2008

*Document Version*
Publisher's PDF, also known as Version of record

Link to publication from Aalborg University

*Citation for published version (APA):*
List-Jensen, A. S. (2008). *Economic Development and Authoritarianism: A Case Study on the Korean Developmental State*. Department of History, International and Social Studies, Aalborg University.

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**Ann Sasa List-Jensen**

**DIIPER RESEARCH SERIES**

**WORKING PAPER NO. 5**

ISSN: 1902-8679

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Development, Innovation and International Political Economy Research (DIIPER)
Aalborg University
Denmark
DIIPER Research Series
Working Paper No. 5

ISSN 1902-8679

*Published by*
DIIPER & Department of History, International and Social Studies
Aalborg University

*Distribution*
Download as PDF on
http://www.diiper.ihis.dk/

*Lay-out and word processing*
Cirkeline Kappel

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# Economic Development and Authoritarianism
# A Case Study on the Korean Developmental State

Ann Sasa List-Jensen[1]

## I. Introduction

Only a few decades ago, South Korea was not better than any other Third World countries, in terms of economic and human records.[2] But today South Korea, along with several other countries in East Asia, has become the object of academic and political attention for achieving two rabbits at the same time; economic development and democracy. Today, when many other states – both catching-up Southeast Asian economies and former-socialist countries – search for a model of economic success and political opening, the debate on the Korean model becomes of even greater political relevance. South Korea, for sure, provides a vast source of inquiry and research on the link between economic performance and regime type. Korean economy recorded miraculous growth for the past thirty years under authoritarian rule. In 1987, people's power forced authoritarian regime to compromise in restoring political competition. Most writings are, however, based on the assumption that authoritarianism is more or less inevitable for economic success, and in order to enjoy democratic political setting people have to wait until a certain level of material progress is achieved (Lipset 1959; Johnson 1982a, 1982b). Only a few critical studies of the Korean economic development experience seem to have focused on the incalculable human costs and the sacrifice of human values such as social justice, human rights, and environmental safety, under the banner of rapid growth (Kim 2001; Kang 2003; Choi 2005).

The Korean experience raises two major questions: Is democratic development an evolutionary phenomenon resulting from economic development, as modernization theorists have argued? Is authoritarianism more effective and desirable in achieving developmental goals? In search for the answers, this paper first examines contending theories on the relationship between economic development and democracy, and then analyses the Korean developmental model to see the link between economic performance and regime type. From theory assessment, modernization argument seems to be relevant on the point that economic growth brings together changes in the overall socio-economic

[1] Ann Sasa List-Jensen is externally affiliated with DIIPER. This revised and updated working paper was presented at DIIPER's research seminar in January, 2008.

[2] When a student demonstration brought down the corrupt Syngman Rhee government in April 1960, South Korea was one of the poorest countries in the world. Its 1960 gross domestic product per capita was lower than that of some sub-Saharan African and most Latin American countries, as well as many of its Asian neighbors (Kim and Lim 2007: 73).

structure of society and the forces emerging from this transformation favor democratic governance. For this, the second section of this paper examines contending theories on the relationship of development and democracy; modernization theory and its critics and developmental state paradigm theory are included. The third section carries out an empirical assessment of the Korean developmental experience by looking at the exogenous factors and the relevance of developmental statist argument. Then, the paper will try to clarify how economic development and regime type have been associated in the Korean economic development experience. The fourth section is briefly going to discuss the policy implications of the financial crisis in 1997 and the neoliberal turn which subsequently have followed and how the neoliberal reforms seem to have transformed the Korean developmental state model. The final section is a conclusion which summarizes the major findings of this study.

## II. Economic Development and Developmental State: Literature Review

### 2. Definition: Economic Development

As any definition of a term, the term development is understood as diversely as the numbers of scholars. In the broadest sense, development means, as Gandhi believed, a process reducing absolute poverty and inequality and achieving full realization of the human potential (Pourgerami 1991: 1). From an institutionalist approach, Myrdal makes a distinction between growth and development by explaining that development consists of growth – a rise in national or per-capita real income and product – plus gradual and sustained improvements in the social system and institutional arrangement (Pourgerami 1991: 29). 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" (Goldstein 2006: 577). The paper also uses terms such as economic development and capitalist development, which are basically identical with the meaning of development.

### 2. Theory Assessment

### 2.1. Does Economic Development Lead to Democracy?

*Modernization Theory and Its Critics*

Modernization theory emerged in the 1950s when a wave of democratization was sweeping the globe, so the scholars could be optimistic about the future of democracy in newly emancipating states, perceiving it as a form of government that would evolve ultimately from the process of economic development and modernization. These new democracies, however, failed to maintain stability and vacillated between democratic and authoritarian regimes. It was, then, theories of dependency and bureaucratic authoritarianism that emerged and sought to explain the retreat of democracy. The essential claim of modernization theory is that democratic development is an evolutionary phenomenon and a concomitant of modernity, hence, democracy is an outcome of socioeconomic development, not a condition of it (Leftwich 1996: 7). Historical studies, in which the theory finds much evidence, suggest that modern democracies can occur only under certain conditions of capitalist industrialization. It was Seymor M. Lipset who theorized the modernization thesis in the 1950s (Lipset 1959; Lipset and Smelser 1966). To put it simple: the more well-to-do a nation, the greater the chances that it will become and sustain democracy. His emphasis was placed on the socioeconomic characteristics of societies as causal factors of democratization. Based on cross-national quantitative comparative research, he suggested a positive linear relationship between levels of socioeconomic development and democratic development. His point was that "economic development involving industrialization, urbanization, high educational standards, and a steady increase in the overall wealth of the society, is a basic condition sustaining democracy, and it is a mark of efficiency of the total system (Lipset 1959: 76-79). This modernization view holds that many parts of what used to be call the "underdeveloped", "backward" or colonial world were not ready for democracy and that a considerable amount of economic and social progress, plus political tutelage, was required before the institutions and processes of democracy would stick (Lipset 1959, 1960).

Evelyne Huber, Dietrich Rueshemeyer and John D. Stephens also manifest that capitalist development in general helps the rise of democracy by transforming the class structure (Rueshemeyer *et al*.1992: 86). Assuming that democracy is a matter of power and power sharing, they focus on three clusters of primarily relevance for the changes of democracy; class power; state power; and transnational structures of power (*Ibid*: 73-75). These three factors combined and interacted in varying ways and varying sequences to determine political developments. The organized working class appeared as a key actor in the development of full democracy and even in restricted democracy as well. However, since the working class nowhere was strong enough to push through democracy alone, it was the middle-classes that assumed a pivotal role in the development of democracy (*Ibid*: 272). Thus, capitalist development is related to democracy in the sense that it shifts the balance of power, because it weakens the power of the landlord class and strengthens subordinate classes. The working and middle-classes gain unprecedented capacity for self-organization, due to such developments as urbanization, factory production, and new forms of communication and transportation. But the posture of one class can never be understood in isolation from that of all other classes, states and international actors in the historical situation. What is important to note here is that it is not the mere rise in per capita income that is of greatest importance regarding the impact of economic development on democracy, but rather the changes in the class and social structure caused by industrialization and urbanization are most consequential for democracy. The dynamics of the correlation between levels of economic development and democracy suggests that economic growth tends to produce social mobilization which in turn tends to mobilize political participation and hence, regime change. In other words, in the low income countries the state often holds on to power as long as it can, while when they reach high levels of growth the balance between state and society begins to tilt in the direction of society, ultimately giving rise to pressures for transition towards more democratic political systems.

However, modernization theorists had a hard time accounting for the growing inequalities and authoritarian governance in Third World countries and for increasing international inequality. Their assumption of a positive correlation between capitalist development and democratization failed to anticipate the “new authoritarianism” that swept through the relatively industrialized Latin American countries, nor could it account for the economically successful authoritarian capitalism that persisted for long periods of time in East Asia. Thus, some scholars began to look beyond the national boundaries of political economy to the structure of the international system (theories of dependence), while others emphasized bureaucratic authoritarianism as causal explanations for economic development.

### 2.2. Authoritarian Developmental Paradigm

From the mid-1980s onwards, a new body of literature emerged which argued that the economic performance of the “late industrializers” in East Asia was, in fact, largely attributable to government intervention and the synergistic relationship between the state and the private sector (Johnson 1982a, 1982b; Zysman 1983; Deyo *et al*. 1987; White *et al*. 1988; Amsden 1989). In 1982, Chalmers Johnson published the book *MITI and the Japanese Miracle*, and hence, became the pioneer in the future debates over the role of the state in industrialization. He argued that Japan’s “developmental state” was a central element in explaining the country’s post-World War II “economic miracle” and by doing so, he was coining a third category “developmental state” alongside liberal and Stalinist conceptions (Johnson 1982b). This was a key breakthrough in the American literature on Northeast Asia.[3] Along with another virtue of Johnson’s work is to place the analysis of ideology and culture in the historical context of late development and economic nationalism. In line with Johnson’s argument, authoritarian developmental states are defined as strong state regimes

[3] The book is perhaps best known for the trichotomy of states that are “plan rational” (Japan), “plan ideological (Stalinist states), and “regulatory” (the New Deal American state). The new in this analysis is to suggest that planning can be as “rational” as market allocation (Cumings 1987: 47).

engaged in facilitating fast capitalist growth. Their political form is characterized by centralized power structure and a strong drive to eliminate or subordinate all potential centers of countervailing power. The reasons provided why they might be a necessary condition for economic development, at least at a relatively early stage, are as follows:

1) *Suppression of consumption and effective mass mobilization for industrialization*: An authoritarian regime is better able to regiment a population for the massive sacrifices necessary for early industrialization (Johnson 1987: 145), including keeping industrial wages very low, extracting large surpluses of labor from the countryside to feed a growing urban industrial work force, and conducting large-scale literacy and public health campaigns among people who still lack the requisite habits and attitudes for successful economic development (Word Bank 1996; Shin and Chang 2003; Kang 2003).

2) *Technocratic rationality*: An authoritarian regime can be more efficient in achieving the goals of the initial stages of industrialization, such as development of a solid infrastructure, large amounts of capital, great volumes of imported technology, and selection and expansion of the industrial base producing relatively simple manufactures at low prices (Deyo 1987; Yun 2003; Pirie 2005, 2007).

3) *Insulation from pressures by different social interests and policy consistency*: an authoritarian regime can reduce policy fluctuations by insulating itself from pressures of various interests groups and avoid critical influence of an electoral cycle. Thus, consistent policy will be more credible to economic agents and increased policy credibility will improve economic outcomes (Shin and Chang 2003; Lee and Han 2006).[4]

4) *Developmental ideology*: An authoritarian regime can forge or impose a national ideology for hard work and sacrifice for economic development.[5] Such regimes stress the moral claims of the state: national discipline, national unity, the importance of stability for national development and the mischievousness and decisiveness of politics. “To overcome our backwardness and catch up with the advanced countries” becomes the major catch phrase of authoritarian developmental states (Johnson 1999; Kim 2001; Kang 2003; Kim 2003).

[4] For a thorough discussion on the importance of an insulated bureaucracy see: Evans 1995: 51-54 and Weiss 1998: 49-59.

[5] Chalmers Johnson claims that the source of authority in the developmental state is not one of Weber’s traditional, rational-legal, and charismatic sources of authority. It is rather, revolutionary authority of a people committed to the transformation of their social, political, or economic order. Legitimation occurs from the state’s achievements, not from the way it came to power (Johnson 1999: 53).

However, not all authoritarian regimes succeed in economic development (see Table 2.1). The most difficult question is, then, why some authoritarian regimes successfully promote industrial catch-up while others do not. Also the question remains if it necessarily has to be an authoritarian regime.

**Table 2.1**
**Average Annual Rates of GNP per Capita Growth in Democratic and Non-democratic Regimes: 1965-1990 (%)**

| Democratic Regimes | | Non-democratic Regimes | |
|---|---|---|---|
| Jamaica | -1.3 | Zaire | -2.2 |
| Trinidad and Tobago | 0.0 | Nigeria | 0.1 |
| Venezuela | -0.1 | Zambia | -1.9 |
| Senegal | -0.6 | Libya | -3.0 |
| India | 1.9 | South Korea | 7.1 |
| Sri Lanka | 2.9 | Taiwan | 7.0 |
| Malaysia | 4.0 | Indonesia | 4.5 |
| Costa Rica | 1.4 | Brazil | 3.3 |
| Botswana | 8.4 | China | 5.8 |
| Mauritius | 3.2 | Algeria | 2.4 |
| Singapore | 6.5 | Thailand | 4.4 |

Source: World Bank, World Development Report 1992

Chalmers Johnson answers, however, the question why such political systems normally are authoritarian. According to Johnson, the main reason is to achieve political stability and long-term predictability of the system (Johnson 1987: 143). He, nevertheless, denies any necessary connection between authoritarianism and the developmental state, but in spite of this, he acknowledges that authoritarianism can solve the main political problem of economic development using market forces. Especially, how to mobilize the overwhelming majority of the population to work and sacrifice for developmental projects. But he draws a distinction between authoritarian rule and what he calls true developmental state; in such a setting the bureaucratic rulers possess a unique kind of legitimacy that allows them to be much more experimental and undoctrinaire than in the typical authoritarian regime: "*This is the legitimacy that comes from the devotion to a widely believed-in revolutionary project*" (Johnson 1999: 52). What is required then is not necessarily a democratic state, but a developmental state. Without a developmental state, democratic or not, no contemporary developing society is likely to achieve developmental breakthrough. Successful developmental outcomes, both historically and in modern era, seem to have depended less on whether regimes have been democratic or not, and more on such factors as internal stability; on acceptability in international economic and political markets; on positive relations with dominant economies; on the relative autonomy of the state in both democratic and non-democratic polities; on sound infrastructure and competent administration; and on low levels of corruption (Kihl 2005; Pirie 2005, 2007).

Other scholars, however, have pointed out the in-built weakness of operating with a strong state-weak state dichotomy; John Zysman claims that the concept of a strong state-weak state continuum refers to an abstract capacity, and thus, it is not issue-oriented by referring to specific abilities in order to carry out particular tasks. He rather prefers to employ a second characteristic of a strong state: first, the state's capacity to deny political access to unwanted groups; and second, the ability to select among market operation, and hence, the ability to guide the economy (Zysman 1983: 294-298). And furthermore, scholars such as Linda Weiss and Peter Evans employ an institutional based approach in their search for causal explanations for the successful developmental state. Peter Evans introduces the concept of "embedded autonomy" as state autonomy embedded in a concrete set of social ties that bind the state to society. Embedded autonomy thus provides institutionalized channels for the continual negotiation and re-negotiation of goals and policies. Embeddedness is notioned to be as important as autonomy, since it is through this channel it is possible to link the state to particular social groups with whom it shares a joint project of transformation. And thus, the secret of the developmental state lies in its amalgamated nature (Evans 1995: 59). Linda Weiss presents similarly an institutional approach by introducing the arrangement of "Governed Interdependence" (GI), it describes a capacity system based on infra-structural power in which firms are relieved from bearing the entire burden of four major "risks": 1) raising capital, 2) developing new products and technologies, 3) finding new markets, and 4) training skilled engineers and workers. And hence, a significant proportion of the costs of upgrading technology, new product development, industrial training, market expansion and so forth is shared by, or embedded in, a thick network of state-informed (i.e. public-private) institutions. So the emphasis is placed on coordination and cooperation between government and industry (Weiss 1998: 38, see also Weiss 2000, 2003). Despite Evans and Weiss' strong emphasis on an institutional framework in explaining successful developmental state experiences, it, nonetheless, seems as they never leave the premise of a strong state (read authoritarian state). In particular, their empirical data clearly illustrates that the state is autonomous in choosing industrial dialogue partners, and what might be even more crucial to exclude others from the agenda. In short, the strong developmental state possesses the veto power by outlining the rule of the game to the rest of the players.

## III. Economic Development and Authoritarianism: Empirical Implications of the South Korean Experience

### 3. Understanding the South Korean Developmental Model

Since the 1960s when the developmental projects took start, South Korea has indeed been transformed from one of the world's poorest countries into an exemplar case of the Newly Industrializing Economics. Its per capita income rose from $103 in the early 1960s to $7,435 in 1993, and growth rates, which averaged 3.4 per cent per annum during 1954-62, have exceeded over 10 per cent per annum since 1965. The expansion of exports also increased from $40.9 million in 1962 to $76 billion in 1993 (KDI 1995; Cherry 2005). And the country joined the Organization for Economic Cooperation and Development in 1994. South Korea is currently the world's twelfth-largest economy and holds the fourth-largest foreign reserves. It is one of the top five producers in the world of ships, automobiles, electronics, and steel (Stiglitz 1999; Lee and Han 2006; Kim and Lim 2007: 73). However, this rapid and impressive economic growth was matched with repressive dictatorial regimes by Park Chung-hee (1961-1979) and Chun Doo-hwan (1980-1987). Undeniably, economic development and democracy before 1987 when democratic opening took place were negatively related. Thus it has been an important question if this mixture of growth and authoritarianism was an inevitable package. Historical, geopolitical, and cultural factors have been cited to explain such economic success under centralized political power structure. But most of all, developmental dictatorship, which pits economic growth against democracy, has been one of the central themes of the political economy in South Korea (Moon and Yang 2002; Kang 2003; Kihl 2005).

### 3.1. Exogenous Factors: History/Geopolitics/Culture

Scholars searching for the answers of the Korean miracle have looked in various aspects of Korean society and suggested that historical legacies from the Choson Dynasty, the experience of the Japanese colonial rule, the subsequent political turmoil including the Korean War and the division of the Korean Peninsula, Confucian tradition, and geopolitical situation of South Korea during the Cold War era did matter for the establishment of a strong state and its push for economic growth (Cumings 1998; Shin and Chang 2003; Lim and Jang 2006; Kim and Lim 2007).

War and colonialism as the deep background for the Korean developmental state was an idea first employed by Bruce Cumings (1981) in *The Origins of the Korean War*[6]. In that book he argued that the Japanese created a kind of

[6] Johnson also heavily invokes the external parameter as causal explanation for the Japanese economic miracle by claiming: "*it depended to a large extent on losing a big war to the right people at the right time*" (Johnson 1999: 40).

developmentalism in Korea, and though it was profoundly predatory in character it nevertheless, achieved rapid industrial growth; it means that the early 1960s was not the first time for such a growth in South Korea (Woo-Cumings 1999: 7). Atul Kohli has pointed out that Japanese colonial rule shaped an overloaded state structure, from which we can trace the emergence of authoritarian regimes afterwards. In particular, some patterns within this overall economic transformation have proved to be of long-term significance. First, the colonial state preferred to work with large business group. Since the Korean, family-centered, but gigantic enterprises also came into their own under this regime, herein may lay the origin of the chaebols.[7] The Korean working class is also said to have been originated under Japanese rule. For example, if there were less than ten thousand industrial workers in 1910, the population of industrial workers had reached 1.3 million in 1943. And furthermore, the moment its origin came into being in a very constraint and cohesive colonial environment, it might be a causal explanation for future conformity and hence, later optional repression of the working class (Kim and Moon 2000, Koo 2000). Along with, the bureaucracy, the police, and the military that sovereign South Korea inherited were essentially colonial creations (Chon *et al*. 2004; Kim 2004; Lim and Jang 2006)[8]. In sum, this historical strand suggests that it might be likely that a significant part of the explanation for why countries pursue different developmental paths lies in their colonial heritage (Koo 1987: 134; Kohli 1999).

The division of the Korean peninsula, brought into being by the Cold War and deepened by fratricidal conflict of the Korean War, was another reason for the establishment of strong state in South Korea. The division polarized political attitudes of Koreans and led to the emergence of powerful military and security establishments[9] (Moon and Kim 1995; Cumings 1998, 1999; Kim and Lim 2007).[10] Moreover, the rise of anti-communism, which came with the division, cultivated a hegemonic ideology legitimizing the capitalist developmental trajectory (Kim 1992; Kim 1997, Kihl and Hayes 1997; KDI 1995). Under the banner of anti-communism, powerful opposition leaders and groups were intimidated and fatally destroyed. In such political environment, authoritarian

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7 The Chaebols are Korean conglomerates operating through a network of hierarchically organized equity ties controlled by a founding family (Lee and Han 2006: 309).

8 Not only were state structures kept intact but the state's capacity and willingness to direct economic change, as well as the economic instruments used by the state – for example, control over credit – continued from the colonial to the postcolonial period (Koo 1987: 129).

9 Park Chung-Hee seized power by a military coup in 1960, and Chun Do Whan similarly came to power by a military coup in 1980.

10 Bruce Cumings places a heavy emphasis on the external parameter: the central experience of Northeast Asia in this century has not been a realm of independence where autonomy and equality reigned, but with enmeshment in the hegemonic web. Japan, South Korea, and Taiwan have thus had states "strong" for the struggle to industrialize but "weak" because of the web of enmeshment: they are semi sovereign states (Cumings 1999: 92).

regimes could easily exclude most non-state actors from a role in the formation of national policy through a strategy of “political exclusion”(Kim 2001; Kim 2003; Kang 2003). Bruce Cumings notes that Park’s regime penetrated civil society to forge new growth coalitions, while co-opting, controlling, or limiting potential opposition[11]. Especially, after the inauguration of the Yushin system, when the Korean Central Intelligence Agency (KCIA) emerged as the preferred organization of order, and as an arm of the executive, the KCIA penetrated nearly every arena of Korean life, with agents in factories, central and local government offices, and university class rooms (Cumings 1987: 72). In addition, the keenly felt competition and threat from North Korea, which at that time was economically more advanced than the South all but forced a developmental orientation on the Park regime.

South Korean economic development under non-democratic rule, moreover, can be attributed to its geopolitical merits, especially during the Cold War era when its development plans took start. It is inconceivable that South Korea could have succeeded in the absence of America’s willingness to throw open its markets to the export of Korean manufacturing products, and in the lack of the U.S. security umbrella, which has preserved the balance of power in the Korean peninsula and the East Asian region as well (Solomon 2005). The United States has since poured more than $13 billion in economic aid and military assistance into the country, and it still maintains approximately 29,500 troops there (Kim and Lim 2007: 71). Another aspect of the South Korean success is its utilization of the international environment. Peter Evans points out that Korea along with other East Asian NICs experienced a dramatic de-coupling of their economies from metropolitan capital; such as MNCs before their successful industrialization and furthermore, they did not reestablish ties until the process was well established. For example in 1967 the stock of direct foreign investment in Korea totaled only $78 million (Evans 1987: 206-7). By contrast, nowadays, foreign investment has 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 (Pirie 2005; Lee *et al*. 2005: 26; Lee and Han 2006). Along with when the developmental strategy shifted to export oriented light industrialization in 1963, the international economic situation was favorable to the Korean economy: since the 1960s advanced economies recorded relative abundance in international liquidity and over-production of capital goods, in general, and

[11] The President was interpreted by constitutional scholars as the supreme leader who held not only neutral power for mediating functions of the executive, the legislative, and the judicial branches but also state power for determining the important matters of state affairs under the Yushin constitution. The presidential power under the Yushin system was understood as that of the supreme leader who had concentrated all political power of the state in the hands of the President himself. Park Chung Hee promulgated the Presidential Emergency Measure 9 for Safeguarding National Security and Public Order on May 13, 1975 which prohibited any slandering of or challenges to the Yushin order. This measure was enforced vigorously till the death of Park in late 1979, when he was assassinated by the director of the Korean CIA (Lee 1990:.204).

machinery for light manufacturing, in particular (Shin and Chang 2003; Kim and Lim 2007).

Another explanation for the South Korean economic success under dictatorship comes from the cultural argument. Confucianism is said to explain both the impressive economic performance and the maintenance of authoritarian rule in South Korea. Confucianism is a code of ethics to guide the relationship between human beings and has long influenced the mentality and behavior of the Korean people. Hierarchy is the core notion in the human relationships between generations, within families and between the ruler and the ruled. The duty of the subordinate is to show respect and loyalty, while the duty of the superior is to lead by asserting the highest moral and intellectual standards (Pye 1985; Lee 1997; Koo and Nahm 1997). By justifying the existence of hierarchical political systems and the need for the centralized, meritocratic bureaucracy that operates within an authoritarian political tradition[12], the Confucian value system generates particular institutional outcomes that are reflected in political system and in industrial organizations (Inglehart and Klingeman 2000; Huntington and Harrison 2000). Confucian emphasis on family, groups, norms, social harmony and moral, political and economic order have suffocated the development of political culture of individualism and personal freedom, and gave rise to "government by men" rather than "government by laws". Good government has been less exemplified in popular views by the rule of impersonal law but understood more as an embodiment of virtuous leadership. These norms tend to offer greater "authority space" for governments attempts to regulate personal conduct and morality and to sanction corporate arrangements that promote compromises rather than rivalries among competing interests. Thus, supremacy of the state over societal forces seems to be based on such Confucian culture (Kihl 2005). Centralized state power which has played a leading role in mobilizing human and material resources necessary for rapid industrialization originated and could be maintained on the cultural foundation of Confucianism. Confucianism also places emphasis on hard work, diligence and a reverential attitude toward education, given that such traits are widely perceived to be the most acceptable means of career progression in a hierarchical system. This in turn implies that Confucianism encourages rapid human capital formation. In South Korea high demand for education matched with the economy's demand for skilled manpower. Effective educational system and relatively high educational attainment of the South Korean population has produced skilled and semi-skilled labor force, which eventually has increased labor productivity and horizontal and vertical movement of the labor force (World Bank 1992: 192-202). Ironically, however, it was also Confucian ethics that has been used to suppress labor and civil society (Koo 2000; Kim 2004; Kihl 2005). Chalmers

[12] Peter Evans notes that in Korea the meritocratic civil service examination have been used for recruiting incumbents into the Korean state for over a thousand years (since A.D. 788) (Evans 1995: 51).

Johnson argues that Confucianism breeds a particular type of industrial organization, in which companies are organized in community-like, almost family-like ways, with a strong emphasis on team spirit (Johnson 1999: 60).

In sum, legacies from Japanese colonial rule, the division of the Korean peninsula and the Korean War, the Cold War politics, American economic and military support, and Confucian ethics emphasizing hierarchy and authority all favorably acted to the emergence of a strong state with excessive power to take lead in economic developmental projects and in mobilizing the population according to this aim. Yet, this does not mean that these exogenous factors were the only critical elements for the rapid development under authoritarian rule. These factors cannot be more than contributory factors, which may play their part, but only when other conditions are favorable. Therefore, the exogenous factors – history, geopolitics, and culture – have provided circumstances for the emergence of the state relatively free from social pressure, which, in turn created a favorable policy environment.

### 3.2. Endogenous Factor: Developmental State

It is the developmental statist paradigm which has hold strong explanatory power over the economic success of South Korea under authoritarian regimes. Focus of this approach is placed on the state's capacity and efficient role for macroeconomic intervention and mobilization of resources, its insulation from social pressures, policy consistency acquired from imposed political stability, and infusion of developmental ideology. Developmental statists postulate that economic success of South Korea is attributed to the active, interventionist state, which was able to formulate efficient, coherent, and consistent economic policies, and to implement them effectively (Shin and Chang 2003; Mo and Moon 2003; Lee and Han 2006). State planners, not the free markets, it is argued, determined the direction of economic activity and a complex system of financial directives, while conglomerates were used to achieve desired ends. In all major economic decisions, in short, the state dictated economic policies, while the large conglomerates executed them.[13]

Chalmers Johnson notes that the state imposed strict controls on flows of investment funds and acted systematically to change the incentive structures of commodity markets in pursuit of national economic priorities. Through control of the banking system, the state not only controlled the allocation of investment capital, but also by setting favorable terms of interaction conducive to strategic

[13] Linda Weiss notes due to the insulated policy-making, the government's transformative project does not lose out to clientelistic or sectional interests; because of institutional connectedness, business does not lose out to remote and bumbling bureaucrats (Weiss 1998: 39). According to Shin and Chang (2003) this framework is better known as "Korea Inc.". However, Korea Inc. may be a somewhat misleading label as it ignores more complicated or even conflict-ridden relationships among the business and governmental actors in specific historical situations (Lim and Jang 2006).

national goals it actively intervened to capture the potential benefits offered by foreign capital. And hence, Johnson presents a state centric perspective by placing the power tool in terms of finances in the hands of the state. It is clearly illustrated, when he notes a firm that does not respond as expected to particular incentives may find that its tax returns are subject to careful examination, or that its application for bank credit is studiously ignored, or that its outstanding bank loans are not renewed (Johnson 1987: 159). Such procedures were executed through an information-gathering network in the shape of a mandatory reporting system. This allowed the bureaucracy to keep close track of priority industries throughout the high-growth period. In return for significant state support, these industries were required regularly to report on their export performance and other areas of business activity (Shin and Chang 2003; Chang 2003; Chon *et al*. 2004; Cherry 2005; Lim and Jang 2006). And hence, the credit tool was a strong measurement for the state to guide and select among industrial sectors (Pirie 2005; 2007). Peter Evans illustrates with Korea's Pohang Steel, how the interventionistic state could guide the industrial policy to expand to industrial fields where Korea did not possess natural comparative advantages. Such findings, however, conflict with findings in the World Bank's widely published book The East Asian Miracle. It argued that industrial policy, defined as an attempt to achieve more rapid productivity growth by altering industrial structure, was generally unsuccessful. Instead, industrial growth in North East Asia was market conforming, and productivity growth was not significantly higher in promoted sectors (World Bank 1996: 308-16 & 325).

Chalmers Johnson advocates, however, that sectoral selection does matter. And in line with this argument he dedicates financial control as the Korean developmental state's strongest instrument to guide and accumulate the economy (Johnson 1987: 147). The advantage of the credit-based system was that the state could exert influence over the economy's investment pattern and guide sectoral mobility, because in such a structure, firms relied on bank credit for raising finance beyond retained earnings, they therefore responded quickly to the state's policy, as expressed in interest rate and other financial policies (Shin and Chang 2003; Weiss 2000, 2003; Lee and Han 2006). John Zysman employs similar assumption, when he claims a credit-based, price-administered financial system is a crucial enabling element. The financial system serves as the eyes and hands for the state's industrial brain. This paper has taken the position that no matter what different scholars might conclude from their research, empirical data clearly shows that the Korean developmental state under Park Chung-hee's reign heavily employed sectoral selection as an instrument to guide the economic development. In the aftermath of the Korean division, South Korea was cut off from the industrial base of heavy industry located in North Korea; inherited from the Japanese colonial period (Cumings 1981). But as shown in table 3.1 below, the industrial base was within two decades restructured so heavy industry from a starting point of 28.6 per cent of the total industrial production exceeded light industry production in 1980 by reaching 51.2 per cent. Along with table 3.2 illustrates the selective industrial policy promotion throughout the 1960s and 1970s. The selectively promoted sectors were the heavy and chemical industries: iron and steel, metal products, machinery, electronics, and industrial chemicals. The motivation for these appears to be two-folded – to increase defense capability – and economic – to shift to capital- and technology-intensive sectors in anticipation of a loss of competitive advantage in labor-intensive sectors (KDI 1995; World Bank 1996; Haggard et al. 2003; Lee et al. 2005).

**Table 3.1 Heavy and Light Industrial Production: South Korea, 1960-1990**

| | **South Korea (%)** | |
|---|---|---|
| | Heavy | Light |
| 1962 | 28.6 | 71.4 |
| 1965 | 31.4 | 68.6 |
| 1970 | 38.1 | 61.9 |
| 1975 | 45.9 | 54.1 |
| 1980 | 51.2 | 48.8 |
| 1985 | 56.7 | 43.3 |
| 1990 | 59.3 | 40.7 |

Source: KDI (1995) Economic Systems in South and North Korea

**Table 3.2 Basic Policy Direction of South Korea (1960-1990)**

| | Major policies | Major indicators |
|---|---|---|
| 1960s | • Export-oriented industrialization<br>• Expansion of key industries and Infrastructure | • Exports: $1billion (1970)<br>• Per capita GNP: $82 (1962), $289 (1971)<br>• Relative size of mfg. Sector: 17.0% (1966) |
| 1970s | • Deepening of industrial Structure through Promotion of heavy and Chemical industries<br>• Formation of a basis For self-reliant growth | • Exports: $10 billion (1977)<br>• Per Capita GNP: $1,000 (1977)<br>• Relative size of mfg. sector: 27.6% (1976) |
| 1980s | • Economic stabilization<br>• Promotion of private Initiatives and competition<br>• Enhancement of social Welfare and social equity<br>• Internationalization | • Tradevolume:$153billion (1991)<br>• Per capita GNP: $6,498 (1991)<br>• Import liberalization rate (mfg.): 99.9% (1991) |

Source: KDI: Economic Systems in South and North Korea, p.47

The state further influenced the structure of the economy by regulating the terms of interaction between industry and agriculture, by protecting infant industries, and by anticipating future needs in key sectors. In sum, the state was important in all facets of growth – diversification, stabilization and growth momentum. In the first phase, the state acted as an entrepreneur by planning and investing in new industries and sectors. It then deployed short-run stabilization policies to overcome external shocks and facilitated growth. Finally, government intervention insured the economy's continued growth (Chon *et al*. 2004; Pirie 2005; Lee and Han 2006). This economic efficacy is explained as a consequence of the policymakers' insulation from contending societal and political pressures, and the organizational capacity and autonomy of the state. Chalmers Johnson observed that it was the authoritarian governance by a military-dominated single party regime that was instrumental not only in mobilizing and allocating financial resources, but also in disciplining civil society and suppressing political opposition (Jonhson 1999: 52-3; Kim 2004; Kihl 2005; Choi 2005).

This insulation and autonomy of the state has created a political environment for policy consistency because economic conditions will not be measured in terms of electoral cycles. Reduced policy fluctuations have been more credible to economic agents and have improved economic outcomes. Stephan Haggard and Tun-jen Cheng elaborate the link between an authoritarian regime and developmental performance by stating that since authoritarian political arrangements give political elites autonomy from distributional pressure. They increase the government's ability to extract resources, provide public goods and impose the short term costs associated with economic adjustments. In other words, authoritarian rule has assisted the state to overcome the collective action dilemma by shielding the economic arena from the pressures of social and political groups. The state ultimately guaranteed low costs of production and the repression of labor, farmers, and political opposition. Workers, who made the economic miracle, were forced to work long hours, under low wages, with little legal protection. Labor laws, which should have provided legal protection to workers, were instead used to suppress the labor. In particular, the banning of industrial unions, the prohibition of multiple unionism, the prohibition of third party mediation in industrial disputes (Haggard and Cheng 1987; Koo 2000; Moon and Yang 2002; Kang 2003; Chang and Chae 2004). In controlling civil society, the authoritarian regime relied on several instruments: legal instruments such as the National Security Law, the Social Safety Law, and the Law Concerning Collective Demonstrations; security and intelligence apparatus such as the Korean Central Intelligence Agency, the National Defense Security Command, and the police (Lee 1990: Moon and Kim 1995: 118; Choi 2005). State strength and autonomy, thus, were not achieved through consensual social pacts, but by harsh authoritarian rule of coercion, intimidation, and threats. The South Korean state was also effective in propagating developmental ideology. As Chalmers Johnson argues, an authoritarian regime can forge or impose a national ideology for hard work and sacrifice for economic development, and can obtain widespread acceptance of its ideology through policy measures such as mass education. The South Korean government infused the developmental ideology to the whole populace in order to facilitate economic growth and to avert attention from politics to mainly economic interests. In effect, the ideology of the South Korean state combined anti-communism, which in practice was both anti-labor and anti-democratic, with developmentalism, which appealed to nationalism.

Hagen Koo (1987) claims that the Korean War, which broke out in 1950, finally ended the old agrarian elite of the Korean class structure. With the war's end emerged a poor but a highly fluid and egalitarian society in South Korea. The labor movement in South Korea has, nonetheless, always been suspected of subversion and threat to national security because of the confrontation with socialist North Korea. Political circumstances resulting directly from national division have always provided authoritarian regimes with the rationale to suppress labor unrest; the national security state cannot take the political risks associated with an independent labor movement (Kim and Moon 2000; Buchanan and Nichols 2003; Baccaro and Lim 2007). The situation of political opposition and civil society was not much different. Opposition groups and leaders were systematically repressed and the popular sector was excluded from the political processes (Choi 2005; Kihl 2005). The division of Korea and confrontation with the North has further provided a constant source of regime legitimacy to the dictatorial regimes. For example, Park's illegitimate way of coming to power via military coup and the regime's continued suppression of political freedom have been justified in the name of national security and political stability needed for economic development. However, such insulation, autonomy and coherent policy capacity could not be realized without political repression against people. It was democracy that has been the greatest sacrifice of the South Korean economic success before the democratic turn in 1987.

The good news is announced to be that popular acceptance of repression is likely to decline as development comes closer to a society's reach, which in turn is likely to lead to a serious legitimation crisis. No country in human history has ever achieved enduring stability by oppression. This implies that prolonged authoritarian rules prove costly and insensitive to the demands of an increasingly complex society and require tremendous cost and effort to prevent popular uprising or opposition coalitions from rising (Donnely 1989: 197). Applied to the Korean case, while South Korea has indeed achieved rapid growth, social contradictions inherent in the industrialization process have generated significant and growing opposition to the development model responsible for producing this growth. The authoritarian regime[14] in South Korea lost its legitimacy as economic success caused a fundamental shift in value priorities from materialism to post-materialism (Inglehart 2000; Inglehart and Klingeman 2000). Unable to meet new demands for political freedom and participation, the regime could no longer justify its existence. The strengthening of civil society is the second domestic factor, which helped remove the authoritarians from office. At the societal level, economic development, industrialization, and urbanization have worked together to create and strengthen the wish of democratic restoration among the Korean populace (Kim 2001; S.H. Kim 2003; H.R. Kim 2004, Choi 2005). The triple solidarity of students, workers, and religious leaders expanded further to include the middle-class citizens in the democracy uprising of June 1987 (Kim and Lim 2007: 74). The developmental performance under park and Chun regimes, thus reveals the paradox of developmental dictatorship; while authoritarian rule was instrumental for regime survival and economic growth, the very process of development hastened the collapse of the regime itself.

[14] Authoritarian regime has been the general rule of governance in South Korea throughout its life span. The 1st Republic (1948-1960) headed by Syngman Rhee quickly turned into authoritarian and technocratic rule. Hereinafter a military coup replaced a "democratic" civilian rule on May 16, 1961, headed by Park Chung-hee; president of the 3rd and the 4th Republics (1961-1979). A provisional installed civilian government in the aftermath of Park's sudden assassination was overthrowned by a new military coup, headed by Chun Do-whan, and the subsequent establishment of the 5th Republic (1980-1987) on May 18, 1980. For further information see Shin (1994).

## IV. The Financial Crisis of 1997 in Retrospect

### 4.1 The Replacement of the Developmental State with a Neo-liberal Agenda

When the financial crisis hit Korea, the economic recession of 1998-1998 was regarded by its citizens as the worst crisis since the Korean War. [15] The nation's foreign exchange reserve was nearly depleted, and the Korean government was finally forced to ask the International Monetary Fund (IMF) on November 21 1997 to provide emergency loans to address the nation's liquidity problem. On December 3, Korea and the IMF signed a three-year Stand-By Arrangement totaling US$74 billion, the largest rescue package in the history of IMF at the time (Lee and Han 2006: 306-7). The IMF program for Korea was classic IMF austerity. It called for tight fiscal and monetary policies to stabilize the currency, thereby stemming the outflow of foreign currency and fixing the nation's current account imbalance (IMF 2002, 2003). As a result, the Korean won (KRW), which depreciated to 1700 per dollar in January 1998 from the pre-crisis level of 900 KRW, stabilized to the 1300 level by the middle of 1998. However, this was achieved by an aggressive high interest rate policy, which raised Korea's nominal interest rate to as high as 30 per cent, a policy, which threw the already fragile economy into its worst recession in nearly 20 years (Lee and Han 2006: 307; Pirie 2005, 2007). The GDP growth rate in Korea thus plummeted from the pre-crisis average of 7 per cent to -6.7 per cent in 1998, while the inflation rate rose from 4.5 per cent to 7.5 per cent (Kim and Moon 2000; Koo 2000; Lee and Rhee 2002: 539). The good employment record also came to a halt. For the last two decades, Korea has enjoyed virtually full employment prior to the crisis. The unemployment rates were remarkably low, at less than three per cent during the 1990s. The unemployment rate grew, however, drastically after the crisis from 2.6 per cent in 1997 to 6.8 per cent in 1998. At the peak, the unemployment rate soared to 8.8 per cent in February 1998 (Lee and Rhee 2002: 550). The absolute numbers provide a more dramatic picture. At the end of 1997, the number of unemployed stood at roughly 420,000. By June 1998, that number reached 1.41 million or a loss of nearly one million jobs in just six months. Most strikingly, the majority of the lost jobs were considered white collar, an unthinkable phenomenon in a culture based on Japanese style life-long employment (Koo 2000; Moon and Yang 2002; Lee and Han 2006: 307).

The general consensus appears to be that the internal cause of the crisis is attributed to: (i) Korea's weak financial sector which had severely limited capability to assess risk[16]; and (ii) an over-leveraged corporate sector with

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[15] The financial crisis began in Thailand in July 1997 and spread to Indonesia, Malaysia, and finally Korea by the end of the year.

[16] In the aftermath, the restructuring of the finance sector has carried with it considerable fiscal costs and total government spending on the program amounts to well in excess of 16 per cent of gross domestic product (GDP) (OECD 2004: 19).

insufficient attention to profitability. These to causes left the Korean economy dangerously exposed to external shocks (Cherry 2005; Pirie 2005, 2007; Lee and Han 2006). In particular, the public legitimacy of chaebols was largely shattered, when long-term opposition leader Kim Dae Jung and his political party took power in 1998, because the chaebols were considered to have colluded with past authoritarian governments and conservative ruling parties for their own benefit (Choi 2005; Kihl 2005; Lim and Jang 2006: 445).[17] The Korean developmental state experience has thus contributed to an extreme market concentration of economic wealth in the shape of the chaebols. On the eve of the crisis, the top thirty chaebols held a commanding position in the Korean economy, accounting for 46.3 per cent of total assets, 45.9 per cent of total sales, 13.1 per cent of total value-added, and 4.2 per cent of total employment (Shin and Chang 2003: 32). Within this elite group, the top five conglomerates (Daewoo, Hyundai, LG, Samsung, and SK) took a 29.9 per cent share of total assets, 32.2 per cent of sales, 8.5 per cent of value-added and 2.7 per cent of employment. And even strong advocators of an interventionistic state, such as Linda Weiss (2000, 2003) and Peter Evans (1995) admit that in the Korean case, the market concentration of power in a few hands of big players might hurt the efficiency of reforms, which seems to be an inevitable necessity to cope with market restructuring in order to maintain future growth. Add to this that the chaebol were also responsible for a substantial proportion of the nation's debt: 47.9 per cent for the top thirty business groups and 29.8 per cent for the top five (Shin and Chang 2003; Mo and Moon 2003; Cherry 2005: 328).[18] As a result, for the recovery and future growth of the Korean economy it became a widely-shared understanding that economic recovery was inconceivable without radical reform of the chaebols (Mo and Moon 2003: 127). The rationale behind these transactions, which came to be known as the "Big Deals", was that Korea's business groups had to trim their operations, focus on a small number of core businesses, and enhance their international competitiveness in order to survive the crisis and compete with multinational firms in the domestic and global markets (Stiglitz 1999; Yun 2003; Lee *et al*. 2005).

In the wake of the crisis, the state has thus demonstrated an unprecedented determination to force leading conglomerates to restructure and improve profitability, a willingness to allow major strategically important firms to fail, and has actively promoted the sale of key assets to foreign investors (Pirie 2005:

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[17] Both the Kim government and the IMF shared a diagnosis that one of the most serious causes of the 1997 crisis had been Chaebols' over expansion, mismanagement, and inefficiency during the 1980s and 1990s (Chon *et al*. 2004: 27).

[18] The average debt-equity ratio of the chaebols rose to 4.4 per cent by 1997, almost twice as high as that on non-chaebol corporations (IMF Country Report 2002: 87).

356).[19] On this occasion, it is remarkable that within just three years, the share of foreign direct investment (FDI) to Korea in terms of total GNP had tripled, from 2.6 per cent to 7.8 per cent between 1996 and 1999. Furthermore, foreign investors now account for more than 40 per cent of total shares listed in the Korean stock market, and a number of MNC's have taken over the management of high profile business, once considered exclusively Korean (OECD 1999, 2004). Since the South Korean financial crisis was a direct consequence of foreign debt problems and speculative capital, FDI began to be seen as a positive alternative source of foreign capital. First, in contrast to short-term debt, FDI was viewed as longer-term, non-speculative and thus less likely to deplete the nation's foreign reserves. Second, a large presence of foreign businesses would be beneficial to maintaining the nation's credit rating among international lenders. Third, FDI brings in more advanced forms of business management and practices (Lee and Han 2006: 315; Pirie 2007). Lee and Han argue that among all the reform measures undertaken in response to the financial crisis, it is the policy changes affecting foreign investment that produced what amounts to a paradigm shift in Korea's well-known model of developmental state (Lee and Han 2006: 306). In effect, the process of creating a more open and transparent economy inevitably weakens the government's ability to use tools such as credit control, resource allocation, incentives and subsidies to achieve its developmental goals and it thus means a reduction in the degree of state intervention in economic activity (Cumings 1998; Cherry 2005; Pirie 2005, 2007). By way of example, by the end of 2000, foreign ownership in commercial banks reached 32 per cent, almost in parity to 37 per cent of government ownership (Lee and Han 2006: 319). State intervention in economic activity also contrasts sharply with the ideals of neoliberalism, which emphasizes the supremacy of market forces and the need for deregulation and liberalization of economic activity. To some observers the process of market restructuring has replaced the traditional developmental state with a "transformative state" model. According to this theoretical strand, the "transformative state" has incorporated a "more mature version of developmentalism" where the goal has changed from one of "catching up" to one of upgrading the industrial economy, and where the government plays the role of "senior partner" rather than "commander-in-chief" (Haggard *et al*. 1999; Weiss 2000: 28-9, 2003: 249).

Critics charge, however, that the transnationalization of corporate ownership and heightened emphasis on shareholder value has negative effects on the stability of social cohesion and employment. In line with this, another approach to

[19] In terms of market capitalization, the proportion of foreign-owned shares in all companies listed in the Korean Stock Exchange (KSE, recently changed into Korea Exchange) increased from 13% in 1996 to 41.97% in 2004 (Lim and Jang 2006: 452).

understanding the post-crisis restructuring process is that advanced by the left-Keynesians (Shin and Chang 2003; Lee and Han 2006; Lim and Jang 2006). For these scholars rather than creating the conditions for Korea to continue its historic economic ascent, these policies were doomed to fail and has instead locked Korea into a low-investment/low-growth trajectory. In sum, neo-liberal reform is conceived as authoritarian and exclusive, because it increases inequality and poverty in society by repressing or distorting the majority of people's demand for socio-economic rights and well-being, while disproportionately benefiting the "haves" with financial assets and capital via such policy measures as deregulation, liberalization, privatization and labor flexibility (Lim and Jang 2006: 448). Suffice it to say that the neoliberal turn is heavily pronounced by the transnationalization of corporate ownership and heightened emphasis on shareholder value, which are well-known mechanisms to enforce labor flexibility, hand in hand with an increased insecurity in people's life with regard to social safety.[20] As a result, the income gap between the rich and the poor has increased along with post-crisis neo-liberal reforms. The Gini Index which describes the situation of wealth distribution is useful here.[21] The Gini Index for "market income" increased from 0.302 in 1996 to 0.374 in 2000. The Gini index for "disposable income" also increased from 0.298 in 1996 to 0.358 in 2000. Both show an increase in income inequality during the period, even after augmented public welfare intervention. Especially, the increased inequality in disposable income means that Korea had the third worst rating of OECD member countries, after Mexico (0.494) in 1998 and the US (0.368) in 2000 (Lim and Jang 2006: 455).

## V. Conclusions

It has been the developmental statist paradigm which has hold strong explanatory power over the economic success of South Korea under authoritarian regimes. The paper has illuminated that the state has played a critical role in macroeconomic intervention and in mobilizing the whole society to achieve developmental goals. However, it has not been the state alone, but exogenous factors such as history, geopolitics, and culture, too, that has shaped the character of the Korean state and its economic performance. This suggests that there is no necessary relationship between democracy and development nor, more generally, between any regime type and economic performance, for the simple reason that different regimes have different capabilities, historical records, and cultural settings and the developmental outcomes of each regime may vary. Against this context-based interpretation, modernization theorists

[20] In 2004, South Korea was ranked as 12th among 28 OECD countries in a survey that assessed labour flexibility showing that the conventional media representation of labour rigidity in the country was a myth (Lim and Jang 2006: 454).

[21] According to the Gini Index 0 is most equal, whereas 1 is most unequal.

have argued that democratic development is an evolutionary phenomenon resulting from economic development. The argument is relevant on the point that economic growth brings together changes in the overall socio-economic structure of society and the forces emerging from this transformation favor democratic governance. Yet, strong state with coherent policy capacity and insulation from societal pressures could not be realized without political repression against people. It was democracy that has been the greatest sacrifice of the South Korean economic success before the democratic turn in 1987.

The consolidation of democracy in South Korea seems to have become further complicated and constrained by the financial crisis of 1997. As briefly illustrated above, the decades-long struggle for democratic restoration in South Korea has been hijacked by neo-liberal reforms. These reforms have been presented by the political establishment as anti-authoritarian and anti-Chaebol "democracy" based on market principles. This neoliberal turn has occurred within a few short years in which foreign capital has become an integral part of Korea's new growth strategy. It was shown that the direction of structural reforms gave transnational capital and foreign businesses crucial advantages and more leeway, while domestic firms and financial institutions were forced to rapidly downsize into bankruptcy, which, in turn, heightened both social unrest and social instability. As a result, the "relative poverty ratio" of households, which indicates the proportion of the households whose disposable income amounts to less than 40 per cent of the medium income of all households, increased from 7.7 per cent in 1996 to 11.5 per cent in 2000. With intensified neo-liberal reforms after the 1997 crisis, the relative poverty ratio of households in South Korea nearly reached almost the US level in 2000, which was one of the highest among OECD countries. And what seems even more crucial by conceiving economic development as a mean to improve the inhabitants' livelihood, is the tendency of economic inequality to correlate negatively with political opportunity. Robert Dahl can be quoted for economic inequalities' tendency to spill over into the political domain and thereby constraining the very nature of a democracy:

> "Ownership and control contribute to the creation of great differences among the citizens in wealth, income, status, information, control over information and propaganda, access to political leaders, and, on the average, predictable life chances […] After all due qualifications have been made, differences like these help in turn to generate significant inequalities among the citizens in their capacities and opportunities for participating as political equal in governing the state" (Dahl 1985: 55).

Though transformed to the newly born democracy in South Korea, the strategy of unbalanced growth based heavily on pure market principles hurt the social integration of South Korean society and thus maintains the division within social classes, sectors, and regions.

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