

〈共同研究〉

「紛争を超えて：アフリカの平和と安全保障に関する総合的な研究の模索」

Revisiting Developmental State in South Korea: Some Implications for Africa

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1. Introduction

South Korea's developmental state produced remarkable results for economic development. In less than three decades, South Korea was transformed from a war-stricken nation living under extreme poverty (GDP per capita in 1961 stood at US\$91.62) to a bustling industrial economy with exports reaching all corners of the world (GDP per capita in 2012 was US\$32,800).

South Korea's rise from rag to riches came with an experience of authoritarian and developmental state, with producing remarkable results for economic development as well as suppression of democracy. In terms of the objectives of the article, it not only focuses on historical trajectory of developmental state in South Korea but also examines the limits and (dis)continuity of Korean developmental state in order to search for some implications for Africa.

In order to search for the aforementioned objectives of the article, it attempts to answer the following research questions. First, how is the historical trajectory of Korean developmental state understood? Second, what lessons can Africa obtain from the experiences of Korean developmental state?

2. Concepts of Developmental State

Chalmers Johnson's pioneering work on the developmental state focused on Japan's very rapid and highly successful post-war reconstruction and industrialization process from 1925 to 1975 (Johnson 1982). He put emphasis on plan-rational system instead of market-rational one which means that markets do not exist in isolation but that they are a creation of the state and politics (Ibid., pp. 18-26). According to Johnson in his case study of Japan, Ministry of International Trade and Industry (MITI) was the centerpiece of developmental state model. Japanese developmental state guaranteed that such pilot agency as MITI were to give bureaucrats additional authority to craft state interventions in the economy without undermining market principles, i. e. "perfection of market-conforming methods of state intervention" (Ibid., pp. 315-16).

Among others, Peter Evans and Linda Weiss are some of the most popular scholar who advanced

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Johnson's thesis. Evans constructed dual-dimensioned concept of "embedded autonomy requiring strong state-society relationships" (Evans 1989). According to Evans, state is autonomous as long as its bureaucracy is not controlled by powerful rent-seeking groups outside the state, and state is also embedded insofar as it is able to maintain close contact and cooperative relationship with the private sector (1995: 12).

Linda Weiss emphasized "adaptive capabilities of the developmental state as a response to globalization" (Weiss 2000). According to Weiss, state power has not declined but rather the state's behavior has changed in response to the new global circumstances. Therefore, she contends that neo-liberal claims about the demise of developmental state as a result of globalization ignores the adaptable nature of these states (Ibid., p. 23). As Thandika Mkandawire noted, moreover, "it is this ideology-structure nexus that distinguishes developmental states from other forms of states."

The specific focus on understanding what made possible the successful establishment of developmental states in Asia later shifted to identifying the necessary governance, economic and social conditions that would make the emergence and sustenance of developmental states possible in non-East Asian regions, including in Africa (Musumba, p. 11). In this regard, Adrian Leftwich's theory and model of the developmental state is very instructive. Leftwich posits that politics is the dominant variable, which determines the concept of the developmental state as well as developmental success or failure in all human societies. He argues further that the explanation for the different development capacities and records of countries, particularly 'third world democracies', hinges crucially on the primary role of politics in shaping the character and capacity of the state (Leftwich 2000: 4).

More concretely, he identifies six major factors that condition the emergence and consolidation of a developmental state, namely: a) the presence of a development-oriented political elite, imbued with high levels of commitment and will to attain economic growth; b) the entrenchment of a powerful, professional, highly competent, insulated and career-based bureaucracy; c) the existence of a social context characterized by a weakened, negligible and subordinate role for civil society and other civic forces; d) the existence of high capacity for the effective economic management of both domestic and private economic interests; e) the exhibition of an uneasy mix of repression and non-adherence to human rights; and f) the performance-based legitimacy of the governing political elite, and which takes precedence over mere procedural legitimacy (Leftwich 2000: 174). According to Adrian Leftwich (1995: 401): "Developmental states are those which have concentrated sufficient power, autonomy and capacity at the center to shape, pursue and encourage achievement of explicit developmental objectives, whether by establishing and promoting the conditions for and directions of economic growth, or by organizing it directly, or a varying combination of both."

3. Historical Trajectory of Developmental State in Korea

3.1. The Emergence of Developmental State under the Park Jung Hee regime (1961–1979)

1) *Promotion of strategic industries*

Selective state assistance was given to a small number of family-owned and family-managed conglomerate business, so called *chaebols*, under Park Jung Hee regime, which contributed to the intensive growth of the chaebols. An important driving forces behind the chaebols' intensive growth was the Park regime's emphasis on Heavy and Chemical Industrial Development (HCID) program which

was introduced in 1973 with focusing on six industrial sectors (steel, machinery, shipbuilding, automobiles, electronics and petrochemicals. In particular, steel and petrochemicals were monopolized by state-owned enterprises such as the POSCO (KERI 1995: 242).

2) Export-oriented industrialization through active state intervention into the market

Park regime chose outward-looking industrialization to promote exports as Korea's main developmental strategy. His regime not only actively utilized a rationalized exchange regime, direct credit, strong export incentives, selective import liberalization, but also modulated the economy's exposure to international competitive pressures in the domestic market (SaKong 1993: 124).

3) Institutionalizing the state's authoritarian and interventionist systems

Park regime put chaebol loans regulated and only approved by the state for specific purposes associated with the Five Year Economic Development Plans. And his regime established the Korea Central Intelligence Agency (KCIA) in order to allow for its penetration of society and the torture was used to clamp down on anti-government labor leaders and groups. Park's authoritarian control of labor reflected the ideas expressed in his book *The country, the revolution, and I* (1963): "for such poor people like Koreans, on the verge of near starvation, economics takes precedence over politics in their daily lives, and enforcing democracy is meaningless" (Song 1997: 92).

Korean economy during the 1960s and 1970s was planned and run by an authoritarian regime with extremely centralized economic decision making. Under this principle, Park regime established 3 important bureaucratic agencies, including the Economic Planning Board (EPB), the Ministry of Commerce and Industry (MCI), and the Ministry of Finance (MoF) in order to catch up with industrialized economies. So these agencies were given a high degree of flexibility and autonomy in the formation and implementation of the governmental policy. And the authoritarian system was then legitimized by subsequent rapid economic growth (Johnson 1987: 143-4).

3.2. The Sequence of Pro-market Reforms of Economic liberalization to Democratic Transition (1980-1997)

1) The emergence of chaebol as a major challenge to the developmental state

Since Chun Doo Hwan took power in 1980, South Korea's rapid industrialization based on a partnership with the *chaebol* not with the Multinational Corporations (MNCs) or State-Owned Enterprises (SOEs) which led to the growth of the private sector became a major challenger to the state for its dirigisme policies in the market (Kim 1997).

A catalyst event that signified the shifting balance of power between the state and *chaebol* was the privatization of banks and non-banking financial institutions in the early 1980s. In fact, privatization of banks began in 1981, and by 1983 all five major government-owned commercial banks were privatized (Haggard 1990: 135). Because the state's control over overseas and domestic borrowing was removed or relaxed, *chaebol* debt and debt/equity ratios increased enormously. For example, *chaebol* borrowing rose in the 1980s, and in the 1990s ran out of control.

2) *Utilizing the double-edged sword: pro-market reforms (economic liberalization) and oppressive labor policies*

The *chaebols* were less willing to be subject to the South Korean state, but labor oppression continued and increased. In 1980–1983, all autonomous unions disbanded, 500 journalists and 80 professors jailed, and 500 politicians either arrested or banned from politics (Rhee 1994).

3) *Anti-government demonstrations: democratic transition in 1987*

In the midst of growing political oppression, anti-government demonstrations continued to intensify. Democratization with the labors' rights, labor movements, increases in wages ultimately weakened international competitiveness of export goods. Thus, this shows that South Korea underwent the sequence of economic liberalization to democratic transition, which implies the state's developmental institutions weak in the face of global competition and external shocks (Lee 1988: 150–151).

4) *Globalization (segzehwa): a national development strategy under the Kim Young Sam government*

According to one of Kim Young Sam's speeches, "Globalization is the shortcut which will lead us to building a first-class country in the 21st century. This is why I revealed my plan for globalization. ... It is aimed at realizing globalization in all sectors – politics, foreign affairs, economy, society, education, culture and sports. To this end, it is necessary to enhance our viewpoints, way of thinking, system and practices to the world class level. ... We have no choice other than this" (Korea Times, January 7, 1995)

However, Kim Young Sam's *segzehwa* drive turned out to be a dismal failure with the financial crisis in 1997. What Kim Young Sam envisaged in his talks of a "first-class country" was to become a member of the OECD. Yet, the country did not have enough time to be prepared for sudden and profound changes in the rules of the game required for gaining OECD membership until 1996.

3.3. Main causes of the 1997 Financial Crisis and its Impact on the Developmental State in Korea

1) *Intensified financial liberalization between 1993 and 1997: chaebols and financial institutions out of state control*

With the ownership of non-bank financial institutions (NBFIs), since 1993, *chaebols* increased financial independence and power vis-à-vis the state during the 1980s. The government increased the number of merchant banks from six to thirty between 1994 and 1996; allowed banks and *chaebols* to freely borrow money or make investments abroad without the appropriate monitoring system. The state unable to financially control *chaebols*, causing their excessive overseas borrowings and uncoordinated investments, which were later to be blamed as 'moral hazards'.

2) *The Korean developmental state: the prime culprit responsible for the unprecedented crisis; the number one target for dismantlement*

It was strongly believed that developmental state model promoted the practices of cronyism, cartels and monopolies, the *chaebols* and the banking sector lost their viability. The cosy relationship between the *chaebols*, banks and the Korean state: a prime cause of all sorts of irregularities and corruption.

3.4. The Kim Dae Jung Government's Response to the 1997 financial crisis

The Kim Dae Jung government embarked on structural reform of the financial, corporate, labor and

public sectors, while actively adopting neoliberalist economic policies. And he allocated public funds amounting to 64 trillion won (14% of GDP), focusing on business capital shortages and bank insolvency.

He also established the Financial Supervisory Service (FSS) in January 1999 by bringing together four supervisory bodies – the Office of Bank Supervision, the Securities Supervisory Board, the Insurance Supervisory Board and the Non-bank Supervisory Authority – into a single supervisory organization, in order to consolidate the fragmented and inefficient supervision of the financial sector, which was one of the important culprits of the financial crisis, the government.

3.5. Discontinuity of Developmental State: The Emergence of Regulatory Regime as a Response to the 1997 financial crisis under the Kim Dae Jung and Rho Moo Hyun Governments

Under the regulatory regime, Kim's government established the Korea Fair Trade Commission (KFTC) in order to retard effects of market monopolies and expand market competition. His government not only abetted the demise of failing companies by implementing a so-called 'Big Deal' policy, but also restricted credit loans to the *chaebols*, and sanctioned illegal internal transactions and inter-subsidiary debt guarantees.

The scope of irregular market activities and *chaebol* dominance decreased markedly as a result of such endeavors, and this helped foreign companies gain easier access to the domestic market, particularly in the distribution industry. His government required the *chaebols* to appoint more outside directors to their corporate boards and retain external auditing committees.

3.6. The Continuity of Developmental Regime under Lee Myung-Bak and Park Geun Hea since 2008.

However, restructuring of the financial and corporate sectors was carried out by state initiative, not by private initiative or market forces. State control of the overall domestic financial system did not lessen but grew, which was contrary to the contention that the Korean developmental state dissolved with the structural reform. Structural reform of the corporate sector was also by state initiative: for example, the successive Korean governments continued to support domestic companies financially, disregarding market principles and delaying the collapse of insolvent companies. (State subsidy to the shipbuilding industry was to be phased out at the end of 2006 but has been extended to the end of 2009.)

Under Lee and Park, South Korea put the *chaebols* as the primary engines for the growth of the national economy. It also pursued employment creation and redistribution of social wealth through a so-called "trickle-down effect" based on pro-*chaebol* economic policies. This symbolizes the revival of the *chaebol*-first doctrine. In terms of the governments' pro-*chaebol* policies. For example, the government reduced corporate, inheritance and donation taxes, and abolished the equity investment ceiling, a rule to prevent the concentration of economic power of the *chaebols*.

The government also intends to keep the Bank of Korea, the central bank of Korea, under state control. In short, policies that prefer strong state intervention and controls rather than spontaneous adjustments of the market are still in use.

4. Concluding Remarks: Some Implications for Africa

As was shown in the case of South Korea, first, the state can be a catalyst for development in Africa. The state can in fact serve as an entrepreneur of last resort. Like Johnson, Amsden credited the judicious use

of intervention from the Korean state for their economic transformation. As an example of government intervention, the creation of the POSCO was instrumental in making Korea a world power in the production of steel and steel products all of which helped the country's automotive and shipbuilding industries.

Second, as was seen in the case of EPB, effective bureaucracies are necessary for development. Third, strong-state society relationships and embedded autonomy are crucial for development. Thus, African states can learn from the experiences of Korea that the continuity and success of developmental state rests on the notion of embedded autonomy within the context of strong-state society relationships.

Fourth, developmental states are neither breaking down nor becoming redundant but have been transformed by the globalization process. In this sense, the victimization of the African state during the neoliberal era should be resisted.

Like Mkandawire, some critical reports of UNCTAD and UNECA also stress that the call for an increased role of the state is not a call to dirigisme and a signal for the alienation of private enterprise. Instead, it is a call for regarding private enterprise and markets as one of the tools to development but not the only one. Therefore, it can be argued that there is and can be a shift towards embracing the state back into the discussion of economic development.

However, there are also negative lessons from the South Korean developmental state given that it does raise some serious questions regarding an 'authoritarian developmental state'.

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