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**APRENDER COM O PASSADO:
TRAJETÓRIA DO ESTADO DESENVOLVIMENTISTA COREANO E A SUA
POSSIBILIDADE DE RENASCIMENTO**

Porto Alegre

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Dissertação submetida ao Programa de Pós-Graduação em Economia da Faculdade de Ciências Econômicas da UFRGS, como requisito parcial para obtenção do título de Mestre em Economia.

Orientador: Professor André Moreira Cunha

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Para minha Família que está na Coreia.

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RESUMO

Crescimento econômico surpreendente da Coreia vale a pena receber atenção devido à importância do papel do Estado no seu sucesso chamado Estado Desenvolvimentista. Estado Desenvolvimentista Coreano tem sua origem na década de 1950 construindo obras básicas institucionais como a reforma agrária, quadro jurídico, formação e reorganização da burocracia e agências de planejamento econômico. A partir dos anos 1960, foi um período bem sucedido do Estado Desenvolvimentista caracterizando a existência de agência piloto, a estratégia nacional para o plano de crescimento econômico no longo prazo, a capacidade do Estado que vem de burocratas qualificados, coesão da organização burocrática, políticas de industrialização seletivas e autonomia enraizada. No entanto, o Estado desenvolvimentista começou a desaparecer a partir da década de 1980 com o movimento pró- democrático e da globalização. A Coreia ainda não perfeitamente convergiu para os países avançados. Além disso, a definição de desenvolvimento não é mais apenas o crescimento econômico, mas também alcançar bem-estar e desenvolvimento humano. A Coreia está agora lutando para encontrar uma nova estratégia de desenvolvimento. Esta dissertação identificou três grandes eixos de discussões sobre o papel do Estado na Coreia contemporânea, quais sejam: (i) o Estado regulador; (ii) o Estado corporativo, responsável pela concertação social e pela indução de um modelo corporativo competitivo; e (iii) o Estado Desenvolvimentista. Esta dissertação prova que a única alternativa é Estado do Desenvolvimento reconfigurado. Ao analisar o sucesso do passado, o renascimento de Estado do Desenvolvimento pode ser alcançado. Aprender com o passado iria mostrar o caminho da sua reconfiguração.

Palavras-chave: Estado desenvolvimentista. Industrialização coreana. Estado desenvolvimentista reconfigurado. Pós-estado desenvolvimentista

ABSTRACT

Astonishing economic growth of Korea is worthy of notice due to the importance of the state's role on its success so called the Developmental State. Korean Developmental State has its origin in the 1950s constructing institutional basic works as land reform, legal framework, formation and reorganization of bureaucracy and economic planning agencies. From the 1960s, it has been successful period of Developmental State characterized as the existence of pilot agency, national strategy for long-term economic growth plan, state capacity that comes from qualified bureaucrats, cohesiveness of bureaucratic organization, selective industrialization policies and embedded autonomy. However, the dismantlement of the developmental state has begun to take place from the 1980s with the pro-democratic movement and globalization. Korea has not yet perfectly converged to the advanced countries. Moreover, the definition of development is not just economic growth anymore but also achieving welfare through human development. Korea is now struggling to find new development strategy. Three major discussions for further development are 1) regulatory state, 2) social concertation and competitive corporatist and 3) Neo Developmental State. The thesis here proves the only alternative is Developmental State and it has to be succeeded and reconfigured. By analyzing the success of the past, the revival of Developmental State can be achieved. Learning from the past would show the way of its reconfiguration.

Keywords: Developmental state. Korean industrialization. Reconfigured developmental state. Post developmental state.

LISTA DE ABREVIATURAS

ED	- Estado Desenvolvimentista
BOP	- Balance of Payment
DS	- Developmental State
FDI	- Foreign Direct Investment
IBRD	- International Bank for Reconstruction and Development
ISI	- Import Substitution Industrialization
MDG	- Millenium Development Goals
MITI	- the Ministry of International Trade and Industry
UNDP	- United Nations Development Program

SUMÁRIO

1	INTRODUÇÃO.....	9
2	FEATURES OF THE DEVELOPMENTAL STATE.....	14
2.1	WHY MARKET MODEL IS IMPOSSIBLE TO EXPLAIN?	14
2.2	THE BEST ALTERNATIVE EXPLANATION ON LATE INDUSTRIALIZING COUNTRIES: DEVELOPMENTAL STATE	15
3	ANALYZING ON KOREAN DEVELOPMENTAL STATE.....	23
3.1	INTERPRETATIONS ON ITS DEVELOPMENT.....	23
3.2	EMBRYONIC STAGE OF THE DS: THE 1950S	25
3.3	SUCCESS OF DEVELOPMENTAL STATE: 1960S-80S	34
3.3.1	National strategy and long term economic plan	35
3.3.2	Industrial policy	39
3.3.3	Trade policy as export and import control.....	41
3.3.4	State capacity and embedded autonomy	42
3.3.5	Monetary policy	45
3.4	THE WEAKENED DS	47
3.4.1	The reasons of weakening	47
3.4.2	The evidences of weakened DS	52
3.5	REVIVAL OF DEVELOPMENTAL STATE	55
3.5.1	Discussions on development.....	55
3.5.2	Changed circumstances and justification of revival of DS.....	58
3.5.3	In which way DS has to change its form?	60
4	CONCLUSÃO.....	73
	REFERÊNCIAS.....	78

1 INTRODUÇÃO

Ultimamente, muitos estudos têm sido feitos sobre as razões do sucesso da República da Coreia (Coreia do Sul ou somente Coreia, de agora em diante) o desenvolvimento de sua economia. O país já foi um dos mais pobres do mundo e, na década de 1950, era mais pobre do que muito países africanos em termos de sua renda *per capita*. Hoje a Coreia é considerada um país de alta renda, de acordo com a classificação do Banco Mundial. Em cinquenta anos, tornou-se o décimo maior país exportador do mundo e seu sucesso é muitas vezes considerado um milagre. Também por esse motivo, muitos estudos têm sido feitos sobre o seu desenvolvimento¹.

As interpretações convencionais associadas ao *mainstream* da Economia afirmam que o sucesso da Coreia se deu em razão das políticas amigáveis para o mercado, onde se destaca o papel do Estado na correção de falhas de mercado. No entanto, o papel do Estado foi fundamental, na medida em que o Estado coreano formou ativamente o mercado, implementando a política industrial seletiva e levantando deliberadamente indústrias específicas, através de políticas financeiras e fiscais. A conclusão dos economistas convencionais é de que a intervenção ativa do Estado, inevitavelmente, gera rendas e isso traz atividades *rent seeking*, o que é improdutivo para a economia (TULLOCK, 1980; BHAGWATI, 1982). O sucesso da Coreia deixou de ser inexplicável quando o conceito de Estado desenvolvimentista foi introduzido, deixando claras as razões do seu sucesso. Hoje, há um amplo consenso de que a sua decolagem foi possível devido ao papel do Estado.

O papel do Estado em estudos econômicos não é um assunto recente. Autores seminais como List (1856), Gerschenkron (1962) e Hirschman (1958), dentre outros, têm enfatizado esse papel no desenvolvimento econômico. Através de um crescimento econômico impressionante de países do Leste Asiático, o papel do Estado ressurgiu para os acadêmicos. Recentemente, Amsden (1985, 1989, 1994), Evans (1985, 1993, 1995), Leftwich (1995, 1996, 2000, 2008), Chang (1994, 2004, 2006, 2010) e Wade (1990) fazem estudos empíricos sobre os casos do Leste Asiático e, a partir desses estudos, desenvolveram uma teoria de Estado Desenvolvimentista (ED).

Entre os casos de sucesso do Leste Asiático, o da Coreia merece atenção especial

¹ Os principais autores são Amsden (1989), Chang (1994, 2006), Evans (1995), Kim (2010), Kholi (1999), Wade (1990), Lee B.C. (1999), Yang J.J. (2005), Park S.J. (2005), Kim I.Y. (2001).

devido à sua singularidade. A atenção é merecida não só porque o país alcançou um rápido crescimento durante a sua industrialização, mas também porque o seu ED foi considerado por aquela literatura como sendo bem integrado e abrangente. A autonomia e capacidade do Estado eram mais fortes e notáveis do que o observado em outras experiências históricas. O governo coreano interveio ativamente no mercado, liderou os agentes econômicos, definindo uma meta nacional de crescimento econômico e conseguiu alcançá-la. Em comparação com os outros países em desenvolvimento que tinham esquema semelhante, mas que não conseguiram ter um bom desempenho, tal resultado vale a pena receber atenção. Os países da América Latina que tinham esquema semelhante não tiveram sucesso e hoje são considerados por Evans (1989) como exemplos de Estado Predatório. O Japão se diferencia da Coreia porque sua industrialização começou desde a Restauração Meiji, assim, o seu processo de intervenção estatal foi moderado. O Estado japonês não precisava ter tanta capacidade quanto o Estado coreano neste sentido (AMSDEN, 1989; CHANG, 2000). Mesmo em relação a Taiwan, que é considerado um caso muito semelhante ao ED coreano, a existência do ED foi mais fraca em Taiwan. O ED taiwanês focava na formação de ambiente favorável ao investimento, enquanto o ED coreano até se tornou um empresário, entrando em um negócio arriscado para atrair o investimento privado nesse setor.

Subsídios para promoção de exportação, incentivos fiscais sobre bens intermediários importados para a produção de mercadorias de exportação e outros incentivos financeiros foram usados de forma aparentemente eficiente. Ao contrário do pensamento ortodoxo convencional, o governo coreano influenciou a determinação de preços no mercado, mesmo que isso implicasse na distorção daqueles, dando subsídio para as empresas com o objetivo de promover a exportação e de estimular a produtividade. As empresas que não incapazes de atender aos critérios de melhoria de desempenho não recebiam os subsídios do governo (CHANG, 1994).

No auge desenvolvimentista o setor financeiro foi fortemente regulamentado. O capital estrangeiro entrou no mercado financeiro como uma forma de empréstimo diretamente através do banco estatal ou do governo. O governo redirecionou o capital estrangeiro para as indústrias selecionadas e isto criou um sistema financeiro centrado em bancos. O Estado sabia que a mera recepção abundante de capitais não garantiria o crescimento. Por esta razão, o Estado direcionou este capital para o desenvolvimento de longo prazo e bloqueou a fuga de capitais (CHANG, 2006).

O Estado também liderou o avanço tecnológico. As empresas adotaram a tecnologia avançada de países estrangeiros e o governo formou um ambiente favorável para que a tecnologia se encaixasse na condição econômica e social do país. Para alcançar este objetivo, o Estado focava na educação, especialmente na promoção das Faculdades de Engenharia, fornecendo bolsas de estudo e ofertas de emprego. Assim começou o programa de treinamento de trabalho, pesquisa e desenvolvimento e melhoria na organização da produção (CHANG, 2006).

No entanto, apesar deste crescimento econômico bem-sucedido, a Coreia ainda não convergiu perfeitamente para os países avançados. Houve inúmeras discussões sobre porque sua convergência parou (YANG J.J., 2005; KIM I.Y., 2008; PARK S.Y., 2012; RYU S.C.; WANG H.S., 2007; LIM H.R.; LEE H.N., 2009). Economistas do *mainstream* acreditam que a Coreia aprofundar, ainda mais, seu processo de liberalização econômica (YOON S.W., 2009; JI J.H., 2009; HALL, 2003; KIM, 1999; PIRIE, 2005). Eles fornecem evidências de crescimento econômico desacelerado a partir da década de oitenta e atribuíram-no ao fracasso do ED. Dessa forma, já antes, mas, principalmente, com o advento da crise financeira de 1997-1998, o ED coreano foi abandonando suas características originais, e adotando reformas mais alinhadas ao espírito neoliberal. As reformas estruturais demandadas pelo FMI depois da crise refletem tal processo.

Em contraposição a tal perspectiva, os adeptos da teoria do ED invertem a causalidade convencional e afirmam que o enfraquecimento do ED contribui para a perda de dinamismo econômico e para a eclosão da crise em 1997. O desmantelamento do ED começou desde os anos 1980, dadas a emergência do movimento pró-democrático e crescente integração do país ao ambiente da globalização. O abandono do ED durante crise asiática não permitiu o alcance do desenvolvimento econômico. O desejo de um maior crescimento e a vontade de ver a Coreia entre os países desenvolvidos é uma esperança há muito tempo para os coreanos. A eleição do Presidente Lee Myung-bak², cujo apelido é presidente econômico, reflete este fenômeno. Para atender a essa esperança e à necessidade cada vez maior de bem-estar, a presidenta Park Geun-hye³ começou a democratização econômica. A necessidade de haver um

² Ele foi o décimo sétimo presidente da Coreia, cargo que exerceu de 2008 a 2013. Ele tinha meta nacional como o crescimento econômico objetivo claro. Mas seu governo é diferente do ED apresentando como o governo pró-negócios.

³ Ela é a atual presidenta desde 2013. É a décima oitava presidenta.

papel do Estado no desenvolvimento econômico exige a revitalização do ED. No entanto, o ambiente alterado em nível nacional e internacional exige a revisão do ED original.

Portanto, a partir dos anos 1980, os processos de redemocratização do país e de maior integração ao processo de globalização trouxeram novos desafios ao desenvolvimento nacional, em um contexto em que o estado desenvolvimentista originalmente estabelecido foi perdendo seu vigor. É neste sentido que o presente trabalho procura contribuir, vale dizer, na busca de compreensão dos desafios contemporâneos para o desenvolvimento da Coreia do Sul. Explora-se a hipótese que o estado desenvolvimentista historicamente constituído no país durante seu período de alto crescimento, e que foi objeto da análise da literatura prévia, precisa ser renovado e adaptado às circunstâncias históricas. Consta-se que a Coreia, que foi considerada um caso exemplar de ED, abandonou esse modelo muito mais rápido do que outros países. Agora, o país está busca recuperar uma trajetória de maior dinamismo. De acordo com as novas circunstâncias, o renascimento do ED parece ser uma tarefa exigente.

Na busca de compreender as características, possibilidades e limites do que seria um renovado ED, parte-se da necessidade de identificar o que tornou o ED um sucesso no período anterior. Percebe-se que seria improvável um renascimento do ED exatamente igual ao que foi no passado, uma vez que as circunstâncias econômicas e políticas, internas e externas, mudaram radicalmente. Todavia, considera-se oportuna a tarefa de se fazer uma releitura da experiência sul-coreana na perspectiva contemporânea, que envolve compreender o debate atual sobre os desafios do desenvolvimento do país e a reflexão teórica mais recente sobre o que seria o ED do século XXI. Assim, pode-se avançar na identificação de quais características do ED original poderiam e precisariam ser mantidas no presente, bem como quais seriam os elementos a serem reconfigurados. O objetivo desta dissertação é analisar a viabilidade de retomar o ED, onde para além do crescimento econômico, possa-se avançar na incorporação de novos elementos associados à ampliação de liberdades e à promoção da dimensão social do desenvolvimento.

A metodologia adotada será a análise histórica do período de sucesso do ED para descobrir as suas principais características e as razões do seu enfraquecimento. Tendo por fio condutor a abordagem teórica do ED busca-se identificar a possibilidade de retomada do ED no contexto socioeconômico atual. Primeiramente, através do estudo dos autores clássicos que abordam este tema, as características comuns do ED vão ser resenhadas. Como a Coreia é um dos países exemplares de ED, o caso coreano inclui tanto semelhanças quanto especificidades

e detalhes. Em segundo lugar, serão discutidos esses detalhes. O ED coreano tem continuidade, ou seja, os recursos do ED não foram construídos em um único dia. Na década de 1950, o período foi denominado “falha de ED”, mas, na verdade, foi um período embrionário que contribuiu para o nascimento do ED através da formação de bases. O período bem-sucedido, por sua vez, será discutido por identificar características essenciais. Na sequência são buscadas as razões de seu enfraquecimento. Por último, será discutida, considerando todos esses fatos do passado, a possibilidade de renascimento do ED e de que maneira ele deve ser reconfigurado.

2 FEATURES OF THE DEVELOPMENTAL STATE

The Developmental State came to the economic scene with rapid East Asian economic growth. It has been developed by various economists such as Amsden, Evans, Leftwich, Chang, Wade. To specifically analyze Korean Developmental State, it first needs to point out origins and features of DS by those economists.

2.1 WHY MARKET MODEL IS IMPOSSIBLE TO EXPLAIN?

East Asian countries had the astonishing growth rate from the 1960s to 1990s rating annually 6 percent growth (CHANG, 2006). Discussions on how East Asian countries had achieved unprecedented growth so-called Asian Miracle came to the fore both for mainstream and nonmainstream economics. Mainstream economists for whom the discussions on development are in no need since economy achieves development automatically as long as it works well had to come up with explanations on growth of these countries.

According to World Bank's report (1993), high performing Asian economies accumulated resources as a form of physical and human capital at the initial stage. With this endowment, they succeeded to allocate them efficiently, which led them to grow more than any other low and middle income countries at that time. This is how the mainstream debate gained momentum in the late 1980s. Neoclassical view, as fundamentalists, stresses macroeconomic stability. The only role of the government is to ensure sound macroeconomic fundamentals and legal framework to promote competition domestically and internationally. The proponents emphasize investment in human capital such as education and health (WORLD BANK, 1993). Market oriented policies that prohibited price control and policies toward international market were virtues of government. However, as there have been obvious state intervention in the East Asian countries, neoclassical view could not fully explain.

To remedy its shortcomings, market friendly view came to the scene. They appreciated the effective role of the government but confined its role only when the market failure existed

⁴ The Main Report of World Bank (1993) denominated Japan, the four tigers: Hong Kong, South Korea, Singapore and Taiwan, and the three newly industrializing economies(NIEs) of South-east Asia, Indonesia, Malaysia, and Thailand as high performing Asian economies(HPAEs).

(WORLD BANK, 1991). For them, the effectiveness of the state is only when the state implements appropriate policies such as investing in human capital, providing competitive climate for private firms, having open economy for international trade (WORLD BANK, 1993). This slightly broadened the possibility of state intervention but still holds the view of macroeconomic soundness.

The third alternative explanation came up, called a functional approach. Three functions were introduced; accumulation, efficient allocation and rapid technology catch-up. Along with macroeconomic stability, these functions were conceived as main causes of economic growth. The proponents also distinguished policies for sound fundamentals from selective interventions. Unlike the previous views, it opened room for efficient selective interventions such as positive but very low interest rate, directed credit, selective industrial promotion and non-traditional export promotion (WORLD BANK, 1993). However, all these orthodox view sees the government intervention as pragmatic flexibility. The availability and effectiveness of government intervention occurs only when there is market failure. It denies dynamic role of government on economic growth.

There are explanations why the orthodox view could not explain development of late industrializing countries. Late industrializing countries differ from the first and second generation of industrial revolution countries since their way of improving technology is through imitation, not through invention or innovation. They industrialize by learning by doing. Once they learn new technology, they achieve higher productivity and grow faster and faster. It is cumulative process of productivity and the growth. The convergence happens ultimately. However, the process of learning new technology is difficult because it involves higher risk. That is the reason why the role of the state is necessary in late industrializing countries. The state by giving incentives to the entrepreneurs lowers risk (AMSDEN, 1995). If looking at successful cases of late industrializing countries, the role of the state presents strongly.

2.2 THE BEST ALTERNATIVE EXPLANATION ON LATE INDUSTRIALIZING COUNTRIES: DEVELOPMENTAL STATE

Developmental State theory came to the economic scene as an alternative explanation of East Asia's economic growth to the orthodox explanation. The theory considers the state as

possible successful leader of economic development unlike the orthodox interpretation. It is worthwhile to mention that the emphasis on the role of the state is not a recent trend in economics. The leading role of the state in economic development has been sufficiently stressed by developmental economists such as List, Gerschenkron and Hirschman. Recently the theory has been developed by economists like Amsden, Evans, Leftwich, Chang, Wade and so on. This theory is derived from the successful economic development cases of East Asian countries. Late industrializing countries formed Developmental State to catch up advanced countries rapidly by intervening in the market strategically and promoting specific industry intensively. Unlike mainstream economists assert, the state not just corrects the market failure, but principally distorts relative price structure and attracts investment in line with the development plan, and promotes strategic industry.

However, the only fact that the state intervenes in the economy does not guarantee economic growth. In other words, there have to be more than the presence of national strategy, selective industrial policy and investment promotion. To become developmental state, at least two principal conditions have to be met. First, the state has to have autonomy from the society. If not, public policy would result in biased structure by clientelism rather than achieving national development. The state has to be independent from control of the ruling class and occasionally has to decide policies that are against the interests of ruling class. Secondly, the state capacity that can materialize and implement development objective is prerequisite. Without state capacity, strong and autonomous state can turn into predatory state. Thus to become developmental state, the state has to have bureaucracy organization to set and implement developmental goal, institutionalize performance based system, arrange cohesiveness of decision making body, have institutional mechanism that can prevent the dominant coalition of the state and capital from becoming rent seeking distribution coalition. So the institutional mechanism that can lead economic growth is the state autonomy and capacity and if these are not met, the government policy would bring about unintended or inefficient result (WADE, 1990).

East Asian countries share the commonalities in this sense. The keyword lies in state's capacity and its disciplinary role maintaining balance of power between pilot agency and interest groups. Political elites of governmental organizations provide a blueprint for economic development, which is usually long term targeted national strategy. They lead the economic agents by allocating endowments (resources) and instructing them an adequate

behaviour. They even force the economic agents to conform to policies. They use selective industrial policies based on the belief that specific industries would lead the further economic growth. To industrialize the specific sectors, at the initial stage, countries use infant industry protection. Paradoxically, export oriented policies are used to ensure scales of economy and achieving competitiveness in the world market. These industrial policies include subsidies, preferential taxes and special credit line.

Before the Developmental State theory, the dominant developmental theories have been dependence theory and the theory of modernization. As tracing the beginning of DS, its origin has its root on the cases of East Asian countries including Japan. The concept of Developmental State (DS) was brought into the literature by Chalmers Johnson (1982) in his book about the Ministry of International Trade and Industry (MITI), which conducted the industrial policy during the Japanese miracle. For Johnson, countries have three different economic regime; plan-rational, market-rational and plan-ideological. A market-rational is one that conforms to the market economy, thus the role of the state is confined to regulatory⁵ such as the U.S.A. On the contrary, plan-rational country aims to achieve economic development by intervening in the market. But it differentiates from the plan-ideological country in a sense that it does not give up the principle of market. The typical example of plan-ideological country is Soviet Union.

As the MITI was pilot agency that had form of plan-rational and implemented industrial policies, Japan is considered as DS. Plan-rational countries have national bureaucracy which consists of competent administrative elites. Bureaucracy has strong autonomy to take initiatives and work independently from political pressure. They managed to surpass interests groups in powers. So this enabled industrial policies to be in line with the long term national strategy. Unlike market-displacing of socialism, the intervention of the government in nation's economy is market-conforming. By using the accumulated information, the policy makers were able to prevent market distortion. Lastly, the existence of commanding organization as pilot agency like MITI is one of the characteristics of DS. In relation with entrepreneurs, both the state and firms acknowledged the existence of the opposite party was essential. This led to close cooperation between them (JOHNSON, 1982, 1987). It is worth being paid attention that he first brought the Japanese Miracle that was

⁵ In regulatory state, the role of the government is confined to monitoring the economic agents to ensure the market functioning. Thus principal job of the government is taxing and spending.

usually seen as “normal process” by traditional economists. The concept of DS has developed by further economists.

According to Boltho and Weber (2009), DS has four distinct features. First, the existence of government that implements policies to increase investment, to promote manufacturing industry and to achieve competitiveness in the world market is evident. The state intervenes in the market by carrying out industrial, trade, financial policy. Industries that used to be protected from crisis and foreign firms succeed in achieving competitiveness in the world market and become self-supporting and viable. The state has sound macroeconomic policies for stabilization such as budget balance and preventing inflation. Moreover, the state that has socio-economic and political nature that maintain high levels of human capital formation, reasonable equality of income distribution, competent bureaucracies and fairly authoritarian government.

Amsden (1989) who has studied Korea’s late industrialization process also stresses out DS as disciplined market economy based on plan rationality. Disciplines over big businesses were the salient strategy of Korea’s industrialization. Korean state acted as entrepreneur, banker and industrial structure constructor. The fact that FDI of Korea is relatively low compared to other newly industrializing countries shows that the state’s efficient capital controls.

Evans (1995) who developed from Johnson’s introduces the important concept, so called “Embedded autonomy”. He enriches the DS, from the one-sided stress on the state’s capacity to the correlation between the state and interests groups. For him, strong state autonomy, Weberian competent bureaucrats and cohesiveness of bureaucracy are not sufficient conditions to achieve development. Embedded autonomy refers to the balance of power between the state and industrial capital. Thus the cooperation and fellowship of these two are essential. But not only cooperation, but also the mutual control and mutual hostage relationship is the key to embedded autonomy. It is embedded in a sense that it maintains close relationship with the dominant interests groups but it is autonomous that it keeps a distance in order to prevent monopolistic behaviour rules the market.

The success of embedded autonomy determines whether a country characterizes as DS or intermediate state or predatory state. The state equipped with both capacity and autonomy materializes the developmental objective and put a plan into action such as Japan, Korea and Taiwan. DS intervenes actively, offers innovative investment, and decreases risk of

investment so that social surplus can be used for national purpose, not for specific interest groups who could have rent seeking behaviour. Pilot agency's strong tie with its society is crucial. On the other hand, the state only with autonomy and without the state capacity, extracts great amount of investable surplus from its society but ends up not using this surplus for collective goods. This is the predatory state hinders national development and welfare by doing predatory behaviours such as Zaire under Mobutu regime. Thus it is incompetent state that cannot give shape to a national plan and implement it. There is intermediate state between these two kinds such as Brazil and India (EVANS, 1995).

Both DS and the predatory state have strong autonomy from the fact that both are despotic state and hold infrastructure power. For him, state autonomy means that the capacity of bureaucrats that implements common objective, insulated from their individual interests. The essential factors to determine the state capacity are the bureaucracy based on achievement principle, the institutionalized state and well organized network between the state and the society. In case of Brazil and India, which did not have close relationship between the state and the capital, the state has to become producer such as founding state-owned enterprises. On the other hand, Korea, which has embedded autonomy succeeded in inducing entrepreneurship and creativity of private capital and led to the cooperation of economic agents. This enabled the upgrading of industrial structure from the basic industry to the high-tech industry (EVANS, 1995).

Wade (1990) proposes a theory of governing the market. His work is majorly on Taiwan's successful case. In a broad sense, the theory criticizes neoclassical explanation; free market theory but it is partially based on neoclassical assumption. There are three major features of DS; high levels of productive investment that is able to transfer new technologies to the real production, increased investment in certain key industries without government intervention and exposure of many industries to international competition in foreign markets but not in domestic markets. He defines the state's role as distributor of resources by guiding and governing the market to improve production and investment result.

Leftwich (2000) understands DS as more political factor that it is necessary to build it in the context of appropriate politics as well as achieving astonishing result. It is worthy paying attention that for him, DS arises when there is weak, negligible and subordinate role of civil society. Although DS has a character of repression, it emphasizes its role on development, which enables broad support from the bottom.

Lee B.C. (2003) draws out commonalities of DS theory. Firstly, they include the state's clear development objective and nationalistic integration. Secondly, state autonomy is independent from private interests groups. Thirdly, there exists selective and discretionary intervention to promote strategic industries. The state has strong tie with its society. Fourthly, the state controls social conflicts in public and excludes public participation. Lastly, there is strategic and selective integration with the world economy. Thus DS is strong state that keeps autonomy from the threat of economic and class structure. By using authoritative and temporary intervention, it intensively mobilizes resources thus reaching the ultimate objective; development rapidly and efficiently.

Kim I.Y. (1995) clarifies the definitions of main features of DS mentioned above. The state has relative autonomy when it succeeds setting goal and drafting policies against interests of the ruling class. The state capacity is determined by how well institutionally organized, how the state can reorganize the institutions if the common objective changes and cohesiveness of policy decision making structure, what resources the state owns to mobilize. In the relationship with subjugated class, the state resorts to oppression or consensus determines whether it is strong DS or weak DS. The DS, based on the private property system and the principle of market economy, on the purpose of prosperity and national defense, intervenes strategically in the market in long-term.

As mentioned above, there have been many explanations on the characteristics of DS derived from empirical studies on East Asian countries. In summary, the state's role in DS is not just reflecting social demand and relationships on social interests. Moreover, it is integrating social and economic resources to development. The state sets the general goal; its focus is centralized on development, and comes up with strategic planning. This general goal is shared by all economic agents with a national consensus and supported actively, and led by state. The dominant way to support actively is through state-led policies with intervention. It is inevitable to have social resistance as the state involves deeply in economic activity but the state manages to control the conflict effectively. If there exist agents who wander off the common objective, the state fustigates them in a decisive manner. On the contrary, the state gives sufficient incentives in order to agents participate for a common goal.

DS is a comprehensive and not an East Asian case-specific concept. Thus it opens the possibility of replicating in other developing countries. It is comprehensive and integrated concept in a sense that only when requirements are met, it can be called as DS. The essentially

required features are the existence of pilot agency, national strategy for long-term economic growth plan, embedded autonomy, the state capacity that comes from qualified bureaucrats and cohesiveness of bureaucratic organization and selective industrialization policies. A country with national strategy for long-term economic growth plan but does not have embedded autonomy between the state and the capital cannot be DS. If one feature among mentioned above is missed out, the state cannot be considered as DS.

However, it should be cautious that it does not mean that a country should copy exactly same behaviour that the East Asian countries did. The core of this theory lies in the mechanism how it works and essential elements which help the mechanism to work and supplement it. It should remind that by using the author who introduced the concept of DS, Johnson (1982) defines; DS means the state set principal objective as economic development and regulate economic competition. So whether it is authoritarian or democratic state, it is not determinant factor in assessing DS.

The replicability issue has been controversial among economists. The DS theory often receives criticisms especially on this issue arguing that its success attributes to specific circumstances of East Asian countries during the specific period from the 1960s to the 1980s. If considers DS as time-specific and the country-specific case, DS is a concept that would never revive. However, as shown in the definition of DS, it does not require being a clone of the East Asian case.

Firstly, one of its criticisms asserts that the Cold War formed favourable environment for East Asian countries as their national borders meet communist countries; Soviet Union, North Korea and China. The cold war hegemony helped export oriented industrialization to work well from the threat of communism. The U.S.'s aid which aims at securing democracy was influential (KIM C.G., 2007). World economy's boom and expansion also contributed to the success of DS. Cumings (1984) also sees colonial heritage as contributing factors since colonial period left human, physical infrastructure for Korea and Taiwan.

However, due to their geographical position, the countries spent national defense spending more than others. Korea has spent 6 percent of GDP for national security since Korean War. The further aid was confined to military purpose. The Cold war hegemony that brought the slogan "we should beat the communism by economic growth" was consequence of growth, not a cause for growth (CHANG, 1998). Secondly, favourable economic situation that promoted export of them to keep democracy of the world had no clear evidence. The

duration of visible U.S. aid was just until the 1950s and this aid was used for restoration from the Korean War (CHANG, 2007).

The second argument is that the initial conditions of current developing countries are different. Differences in human capital through long-time education allowed the competent bureaucracy and offered qualified technicians. And export oriented strategy by the East Asian countries is not replicable to other developing countries since their scarcity of natural resources obliged them to choose export oriented strategy. Countries with abundant natural resources could end up not pursuing export oriented growth because it does not need to. However, by looking at it the other way round, at the initial stage of development of the East Asian countries, it was obvious that no one could imagine that these countries would grow because of its poor natural resources and infrastructures. That is why the role of the state is needed to break its nature and vocation of the country with its initial endowments.

The fourth argument that current international trade environment is also one of the obstacles that keeps DS from revival. GATT and Bretton Woods System allowed rooms for having protection and implementing export oriented policies. However, under the WTO of which purpose is globalization of world economy, sectors that had not been parts of liberalization under GATT such as agriculture, service and investment became exposed to heavy pressure to open themselves. So under WTO, it became more difficult to do promote state-led strategic industry. However, there still is room for state's intervention. The WTO also allows protection when it is developing country (CHANG, 1998).

Concluding that the replicability of DS is impossible is dangerous in a sense that no country would develop in this logic. The bureaucratic corruptions and lack of qualified human resources was not exclusive product of Latin America. The fact that the East Asian model is applicable to any country does not mean that it should go through exactly same way. It means that strategy that the East Asian countries took can be applied to other countries and can revive in these countries again by accepting revisions.

3 ANALYZING ON KOREAN DEVELOPMENTAL STATE

This section analyzes Korea's case from its birth to the decline and its possibility of revival in the future. It is historical economic perspective trying to understand DS's transition.

3.1 INTERPRETATIONS ON ITS DEVELOPMENT

It is obvious that developing countries which usually have poor infrastructure of capital, technology and market scale need economic intervention by the government to achieve their development. But not all governmental intervention guarantees their development. Only with the presence of state autonomy and state capacity can lead to development otherwise ends up with rent seeking behaviours and predatory behaviours (EVANS, 1995).

Korea is important in this sense because it succeeded economic growth based on state autonomy. Korea's case is especially notable compared to that of Taiwan and Japan in terms of comprehensiveness and state's capacity (CHANG, 2000). In Japan, the industrialization process has been slower thus the role of the state was moderate and consensus-oriented. On the other hand, concerning how Korea achieved industrialization rapidly, the state not only instructed businesses to follow the national strategy but also became entrepreneur by itself if companies hesitated about entry by being front runner (AMSDEN, 1989; CHANG, 2000). In this process, the state has learned how to construct symbiotic relationship with entrepreneurs. "Embedded autonomy", the key word for its success is the result of learning from this and made the Korean state much more successful than the other East Asian countries. State autonomy made Korea possible to overcome collective behaviour problems and set its common objective as economic growth. Through financial control, discipline, selective support on industries governments achieved state capacity. State capacity led productive investment of capital and reinforces efficiency of economy.

It is worthwhile to address several interpretations on Korea's performance. The orthodox explanations on its development say that economic growth of Korea and other industrializing countries was due to market conforming behaviour. According to this market-friendly approach, Korean economy stagnated in the late 1950s because of distortions generated by excessive state intervention. Import substitution, multiple exchange rates,

quantitative restrictions were factors that allowed inefficiency. The turning point was a policy reform in 1965. The reform included stabilization programme, unified and realistic depreciated exchange rate, trade liberalization, and an increase in real interest rate. For them, getting the price right and correcting distortions created by the institutions allowed Korea to achieve rapid growth. They believed that as Korea created more market oriented economy, it achieved more efficiency. So, heavy and chemical industrial policy in the 1970s is considered as non market conforming behaviour thus failed with inefficiency (CHANG, 2006; LEE B.C., 1999).

However, this claim contradicts to the reality. Even this reform had characteristics of neoliberal policies at first; it was revised by complementary plans later (LEE B.C., 1999). Tariff was still high. Quantitative restrictions became more pervasive after the reform. Import substitution was still implemented by government. Moreover, foreign exchange rationing practically prohibited agents from obtaining foreign exchange. About interest rate, data shows that Korea's saving responds little to interest rate. And it is not necessarily true that a more market oriented economy is more efficient (CHANG, 1994).

The alternative explanation on Korea's economic growth is Developmental State. It has reached to consensus that with the strong presence of government intervention, Korea has achieved its growth. Not only its eye-opening successful performance, but also its dismantlement is noteworthy. Dismantlement of the DS has occurred rapidly and radically (CHANG, 2000). The liberalization and market opening blocked possibilities of implementing DS policies such as trade, financial and industrial policies. Progress of economic liberalization was radical shown in table 1.

Table 1 - Progress of economic liberalization of Korea (%)

	1981	1983	1984	1985	1986	1988
Liberalization of imports	74.7	80.4	84.8	87.8	91.5	95.4
Average tariff rate	24.9	23.7	21.9	21.3	19.9	18.1
Liberalization of foreign investment	49.9	61.0	66.1	76.3	79.0	90.0
(Manufacture sector)	(80.0)	(80.0)	(86.0)	(92.5)	(97.7)	(99.0)

Source: the Korea Development Bank (1988), Yoon (2006)

3.2 EMBRYONIC STAGE OF THE DS: THE 1950S

Discussions on the origin of Korean DS have received little attention or even misunderstood. Since Korea has been a colony of Japan from 1910 to 1945, various DS economists such as Cumings (1991), Kohli (1994), Amsden (1989) point out colonial period has substantial influences on the emergence of Korean DS. They find similarities of economic growth model of the 1960s and of the colonial period.⁶ For adherents, before colonial period, which has been the Joseon Dynasty, there has been weak and impotent state but after undergoing colonial period, the strong state emerged. Human resources and their incorporated experiences learned from Japan's colonization offered perspicacity of bureaucrats at bureaucracy level and allowed to have qualified workers at shop-floor level.

Meanwhile, the most of studies have ignored the importance of the 1950s and describes the 1950s as failure or nonexistence of DS. According to the existing studies on the 1950s, the period can be characterized as having political corruption, anti-democracy and low growth. Evans (1995) evaluates this period as predatory state. Bureaucrats were recruited by nomination and their promotion system was ignored. As political funds were raised by bribe, the collusive links between bureaucrats and private capital and rent seeking behaviour were prevalent.

However, the recent study of Lee B.C. (1999), Kim J.S. (2004), Park T.G. (2007), Park S.J. (2010), Lee D.G.(2002), Seo C.S. (1995) deny these two arguments; Korean DS has its origin in colonial period and the 1950s is insignificantly influential. They suggest that the 1950s formed the groundwork for successful DS in the next decade and this automatically denies the colonial period as embryonic period of DS. Unlike economists that overlook the importance of the 1950s, they assert that the efforts in the 1950s can be seen as institutional basic works to become the strong state and to construct infrastructures.

They criticize the view that Japanese colonial period is necessary condition to form DS. Firstly, the sudden revival of colonial heritage; the strong state from the 1960s and

⁶ President Park's initial years in office, in the early 1960s, developmental model resembles Indian model, which was considered as an exemplary among developing countries at that time, rather than Japanese one. Authoritarian government from Cold War hegemony and anti communism have the same way of the nationalism wave of the third world countries at that time (LEE B.C., 1999). This contradicts to the fact that as Park was strongly influenced by Japan, he imitated Japanese model and Korean DS has its origin in colonial period.

leaving the 1950s as period of blank has problem in explaining continuity of history.⁷ It is difficult to explain why DS abruptly jumped out in the 1960s, and why could not do in the 1950s. There has to be explanation on how the competent bureaucracy who learned from Japanese colony disappeared in the economic scene of 1950s and appeared in the 1960s. Secondly, the Korean War destroyed physical colonial heritages thus leaving the country with no infrastructure. Thirdly, the active role of the state in economy and its developmental willingness were not Korean specific. From the 1950s, there has been strong tendency that developing countries like Middle East and Asian countries adopted state-led economic growth.

Fourthly, it is also deniable that colonial period gave a birth to capitalists and they became playing important role in industrialization. Among 23 principal capitalists in the 1950s, only 3 were landowners in colonial period. It is ambiguous to assert that there was modern bureaucratic system in colonial period and that experience was influential (PARK S.J., 2010). Lastly, adherents of colony-originated DS overlook the attempts of the Joseon Dynasty to modernize the country and enlighten its citizen such as increasing commercial capital, improvements in agricultural technology, development of commodity money and collapse of caste system. The modernization in Korea did not start in colonial period. It has already started in the Joseon Dynasty but stopped by Japanese invasion.

Park's thesis (2010) found some features that cannot be explained in colonial period can be explained in the 1950s such as more egalitarian society through land reform, institutional basic works like the first constitution and its second amendment and the emergence of bureaucrats and bureaucratic organizations.

The thesis here contains compromise view on the 1950s, and has deeper insight on this period than other analyses. That is to say, in the 1950s, the conditions to form DS in the 1960s have arisen but at the same time, it contains limitations that led failure of forming the DS in this period. (PARK S.J., 2010, p.431)

If Korea could have not been developed without colonial period, it is clear that the influences of Japan have been substantial. If it is, it might conclude that DS has its origin in colonial period. However, more evidences on institutional basic works and direct preparations to form DS are found in the 1950s. As history has continuity, it is difficult to say that Japanese colony has no effects at all. However, its direct impacts on DS's birth are quite small. After

⁷ Kim I.Y. (2001) calls the 1950s as *missing link* in academics.

the independence from Japan, the colonial factories were destructed. Moreover, the Korean War left Korea with no production facilities and infrastructures (CHANG, 2000). The preparation period for the emergence of DS in the next decade is the 1950s, not the colonial period.

On the other hand, as the 1950s is confined to preparatory, embryonic stage, it also has to look at why it cannot be denominated as DS. One of the limitations that this period contains is lack of state autonomy, which is restrained by the U.S.⁸. Outbreak of the Korean War from 1950 to 1953 destroyed the country's infrastructures and resources. To recover from the war and keep the nation from external threats such as becoming communist country or another colony, Korea needed financial aid to stand on its own feet. The U.S. was a supplier of this aid thus its influence on Korean peninsula got stronger. The U.S.'s power constrained the state autonomy of Rhee's government especially on international issues. It is important to note that from the very beginning when Korea and the U.S. started diplomatic relationship, the U.S. has perceived Korea as the black sheep of East Asia, while Japan was considered as an economic partner. In addition, the U.S.'s foreign policy against the world was ensuring world's capitalism from the threat of communist countries. For this reason, its policy against Korean peninsula was protecting it from communism moving south (SHIN B.R., 2011). So in the early days, the aid took more passive form; politically achieving stabilization rather than stimulating economic growth.

Then it changed the way of aid from stabilization ensured by national security to stabilization achieving by economic growth. This was due to the changes in foreign policy of Soviet Union and increasing demand for income improvement by Korean citizens. In 1955, Soviet Union changed its aid policy against third world countries. The objective of aid aimed at economic development of socialism bloc. The U.S. felt keenly the necessity of having long term economic development plan in aid receiving countries (JEONG I.J., 2000). The aid helped to emerge more progressive industrializers than from existing textile industry. The

⁸ Seeing the U.S. aid as one of the determinants to become DS (KIM C.G., 2007) is exaggerated argument. It is true that by supplying the certain kinds of raw materials, the aid oriented which sector would be fostered. However, the aid has taken passive form and the U.S. intention on Korean economy has never been active compared to the strong willingness of Park's regime. Its only intention was recovery from the war and political stability in order to secure democracy in Korean peninsula. The U.S. demanded Korea to spend the aid mostly in national defense and purchase materials from abroad (KIM I.Y., 2005). Moreover, during the period that U.S. intervention was stronger, around the 1950s, the economic growth was insignificant. It does not mean that the U.S. influence is negligible. But it is highly doubtful that the U.S. influence contributed to the economic growth.

recovery plan had two big pictures; one was easy import substitution in non-durable consumer goods and the other was specialization on primary products to solve the BOP problem.

Macroeconomic policy was double exchange rate policy; official exchange rate and market exchange rate. This was against the U.S.'s strong demands on fluctuating exchange rate system (WOO J.E., 2006). Official exchange rate was lower than the market exchange rate. With this double exchange rate, the government allocated the U.S.'s aid goods in efficient way. The U.S.'s aid can be divided into two; for government purchase and private purchase. The government purchase was to recover infrastructures and construct industrial facilities. Official exchange rate was applied to this. On the other hand, private firms used aid to promote consumer industries by purchasing raw materials and facilities. The exchange rate applied was official exchange rate or much lower than the market exchange rate but higher than the official exchange rate. The aid was offered for free but should be provided at a cost. So this generated economic rents in selling aid products. The firms could buy raw materials at official exchange rate or slightly higher than this and the state subsidised credit at low interest rate in purchase. As there was ban on imports of this product, the revenue was guaranteed.

The 1950s is featured as import substitution industrialization period and the 1960s as export-oriented industrialization. Acute shortage of daily necessity after the Korean War and sharp increase in imports led to ISI. Resources for ISI were mostly supported by the U.S.'s aid and the government's objective was maximizing the aid (HA Y.S., 1993). The U.S.'s aid was important factor to determine the feature of ISI. Aid goods were materials for producing consumer goods such as cotton textile manufacturing and they were distributed at lower than market exchange rate. This allowed revenues of firms and expansion of the industry and led to the success of ISI. Thus low and double exchange rate system was important methods to guarantee ISI's success.

As time passes, the excessive investment in these consumer goods industries faced with demand shortage, and by the end of the 1950s, export was considered as a strategy to solve this problem (KU H.W., 2009). Criticisms on Korean economy in the 1950s attribute to the distorted exchange rate policy which caused slowdown in export and the failure of ISI. Commonly through ISI, the goods that were imported are to be produced in the domestic market and the production is based on the existing market that already had demand. Existing market is hard pressed to keep up with increasing effective demand thus leads to industrialization and insulate from the foreign capital. However, Korean ISI was for simply

manufacturing and selling the products by using the aid materials. So it is hard to see ISI as a national strategy (KIM S.J., 1991).

However, according to Choi S.O. (2005), low participation of export in GNP was because export capacity was limited. After the Korean War, industrial facilities and infrastructures were destructed and its scale of damage accounted for 85 percent of GNP in 1953. Export of manufactured goods was managed to start in the late 1950s (KU H.W., 2009). It is worth looking at mechanism to choose import substitution model in the 1950s. Compared to that of Park's regime, which borrowed loan from the U.S., Rhee's government did not have to redeem the debt because it took a form of aid (SHIN Y.O., 2000). So the survival strategy of Park's and Rhee's regime has to be different.

Many attempts on gaining state autonomy can be found. Firstly, the U.S.'s aid required Korea to spend the aid mostly in national defense and purchase raw materials in shortage from Japan. However, instead of importing from Japan, Rhee's government tried to produce production goods and infrastructure. Secondly, there have been continuous conflicts between the pressure by the U.S. on implementing stabilization policy and the government's willingness to have developmental policies. Even taking risks of having high inflation, Rhee's government intended to go on economic development project such as constructing social infrastructure. However, due to the weak status of Korean government as aid receiving country, Korean government ended up with no space for expansionary developmental policies. The U.S., in fear of becoming second Kuomintang of China, tried to implement anti-inflationary policies thus ensuring stabilization and settlement of capitalism. Today's evaluation on Rhee as liberal politician was due to the pressure from the U.S. to implement sound macroeconomic policies such as anti-inflation to stabilize its economy in threats of withdraw aid (PARK S.J., 2010). This imposed restriction on the state autonomy to implement DS style policies.

When it comes to the state capacity, under Rhee's regime, bureaucrats considerably enjoyed autonomy. Civil service examination system which allowed hiring qualified bureaucrats only started in 1977. In other words, compared to those of Park's regime, bureaucrats seemed no different in their capacity. The state maintained the bureaucratic organization that grew excessively during the colonial period and the U.S. military government, which became power base. Under the coalition between state bureaucracy, the Liberal Party, oligarchic elites, private entrepreneurs, the state bureaucracy had superior

position thus maintained autonomy at certain degree (PARK S.J., 2010).

The relationship between the state and private capital as mutual hostage emerged in the 1950s. After the independence from Japan, the U.S. military government came to the power and it had to dispose of attributed properties of Japanese. Around 80 percent to 90 percent of these properties became under the possession of Korean government and these were resold at giveaway price to the firms that had provided political funds. This host relationship also can be found in distribution process of aid materials. Aid materials were sold to the firms at favourable low interest rate through the Korea Development Bank (KIM I.Y., 2005). By using policy measures as financial control, restrictions on imports and exports, distribution of aid goods and the sale of attributed property, the state intervened in economic activity. Bureaucrats linked with politicians exchanged preferential benefits with political funds. However, the disciplinary role of the government which leads distributed economic rents to economic performance through incentive mechanism was absent. While the DS in the 1960s used the carrot and the stick approach, Rhee's regime only used the carrot approach by forming sponsor-beneficiary relationship. But it cannot be overlooked that the intimate relationship between political capitalists and the state emerged in this period (KIM I.Y., 2005).

Despite the limitations, institutional basic works which were essential contributing factors to the birth of DS in the next decade can be seen in the 1950s. After the Korean War, South Korea was in total disaster, practically with no productive land. In respond to the increasing demand of peasants, land reform was implemented. The U.S. military distributed nested lands and farmland reform brought about collapse of the landowning class. This helped a lot to form DS because it obstructed landowning class from becoming industrial capitalist. When implementing land reform, enriching the peasants and increasing tax earnings are expected results. In this sense, Korean land reform in 1950 has failed to achieve both objectives. It took the way of confiscation with compensation and distribution at cost while North Korea did confiscation with no compensation and distribution as free of charge. This implies that South Korean reform was more favourable to landowning class.

However, although it had not helped small peasant farmers in economic terms, the landowning class has collapsed. By only compensating 36 percent of land value and by giving stock of land value instead of money, landowning class underwent trouble. Since stocks of land value have high volatility, during the Korean War, the stocks were sold at giveaway price to secure liquidity. The collapse of landowning class formed the bedrock of the upcoming

strong state. Generally in developing countries, landowning class is an obstacle of emergence of capitalism and capitalist. Since landowning class is landowner at the same time is capitalist, they tend to maintain their vested interests. Inexistence of powerful social class set up favourable environment for the state to have centralized policies (GONG J.W., 1993).

Moreover, it stimulated the emergence of capitalist. Newly emerging capitalists bought stocks at giveaway price. In 1984, among 50 Chaebols, 32 had its origin in this period (KIM K.W., 1990). In the long run, it oriented capital to be injected in manufacture industries, not in land speculation. After the reform, majority of households owned lands. This contributed to citizen's desire for education, which created qualified and skilled workers in the future. Moreover, it made Korean people dream of more equal society by showing the possibility of having distribution policies. All these factors gave a birth to the strong state (AMSDEN, 1989).

Formation and reorganization of bureaucracy were done in this period. Policy makers during the 1950s took the basic idea from corporatism. In fact, given the critical importance of the U.S. support, the state acted as if it had been conforming to free market. However, interestingly, policy makers were who studied Friedrich List, Joseph Schumpeter, and especially Marx, not neoclassical economics. The fact that they considered excessive competition as social waste, emphasized the importance of achieving scale economies, and obsessed with capital accumulation proved that they were not true followers of free market (CHANG, 1998). Although these bureaucrats are judged to be corrupt and pre-modern compared to those of Park's regime, the attempts of founding bureaucracy organization in the 1950s is noteworthy. Compared to Park's regime, Rhee's bureaucratic system shows no significant difference. Firstly, it is because that modern bureaucratic system requires considerable period to settle (CHANG, 2004). Bureaucrats of both Rhee and Park had autonomy in a considerable degree. Two governments are based on vertical relationship with bureaucrats, which deepened dependency on them (PARK S.J, 2010).

Along with these bureaucrats from non free market followers, several protectionists' attempts were performed during this period. To industries that needed to import scarce materials, the hard currency was provided. Loans at subsidized interest rates, tax exemptions and preferential contracts are examples. However, the failure of these policies was due to non-specificity of its preferential treatment and rent seeking behaviour of entrepreneurs. Since corruption was pervasive, the state treated corporations unfairly. Entrepreneurs who had

connection with the government showed monopolistic behaviour by taking advantages from preferential treatments (AMSDEN, 1989).

Legal framework does not only ensure institutional stability but also reflects the society. Thus it is important to look into the changes in it. The first constitution of Korea and its second amendment in 1954 solidified free economic system from controlled economy (PARK S.J., 2010). The first constitution in 1948 stipulates state-led controlled economy due to intensified ideological confrontations between the left and the right at that time. After the Korean War, economic clause has been amended as ensuring free economic system. It opened the space for liberal market economy but at the same time continued to have socialistic feature. The constitution guarantees private property. However, the right of ownership has to be exercised within the context that it conforms to the public welfare. Rhee came clear that the state would nationalize important industries including mining industry, banks, railways, communications and transportations to achieve economic development. All commercial activities were to be under government's censorship so that there would be no imbalanced gains between consumer, producer and traders. Although Rhee's willingness to amend the constitution was on political purpose, it is undeniable that the government did autonomous attempts to do institutional basic works. Considering the fact that the U.S. was concerned about the constitution's socialistic feature, Korea has maintained state autonomy in the 1950s as well, but not on the same degree as the 1960s (PARK S.J., 2010).

DS's main characteristic is the existence of national strategy and economic planning. Full-scale and systematic economic planning by Soviet Union through Gosplan and its success became more of a subject of imitation for developing countries rather than the threat for capitalism. German, India and Turkey implemented long-term economic plan as well as most of the Asian countries in the late 1940s and the 1950s. Moreover, the state's intervention on economic activity has been prevalent traditionally in Korea. Although Confucian culture allowed private property, its main objective is pursuing equal society. The person who accumulated wealth excessively was treated as a threat for keeping the society in harmony. In order to keep the society in harmony, the state's intervention was essential. The state-led production, planning and distribution were not a sudden learning effect from colonial period. It is a product of long time cultural background.

The evidences can be found in Rhee's term as well. Economic Planning Agency was firstly introduced. Its role was compiling budget and planning overall economy such as

finance, industry and distribution. Moreover, the agency was involved in detailed planning like materials mobilization plan, production plan and administration plan. It had authority to intervene immediately when there was economic urgency. The agency secured system of organization by arranging four offices under the agency; budget office, economic planning office, materials mobilization office and price planning office. In 1949, as Rhee liberalized economy, it started to lost its position. In 1955, Department of revival⁹ replaced it. It merged economic planning office, price planning office and research office into planning office. This meant it strengthened the functioning of overall planning for economic revival and for securing ample funds for that. However, as budget part has transferred to the Ministry of finance, consistency of planning became uncertain. Even the department had planned, without the cooperation of the Ministry; the plan was difficult to succeed. Bureaucrats of the department did not have authority to force the budget part to be consistent with their plan. Moreover, they were not specialists nor had sufficient experiences and knowledge. The department was replaced by Industrial Development Committee¹⁰. Observing the name of the former, revival means that restore from the past. In this sense, the new committee differentiated it from the former one by stressing out development. The government's intention is now growth development based on enhancement of productivity.

The long-term economic plans were started. This is similar to that of five year economic plan of President Park. It has now an integrated system from plan to implement. However, it also contains limitations. Rhee's willingness to do long-term economic plan was used as diplomatic tool in order to convince the U.S. Rhee's interests on economic development has been insignificant. The party in power used populism such as concentrating on short-term government expenditure rather than long-term plan. Most importantly, the cooperation between departments has failed to work efficiently. Three year plan by the committee itself contained disequilibrium. There had been problem of raising foreign and domestic capital, promoting both capital intensive and simultaneously labour intensive industries and non realistic export goal. Although these attempts receive passive reviews, they could be seen as learning through trials and errors. It can conclude that in the 1950s,

⁹ The department has no official translation. The name used in this thesis is translated by the author. The original name is Bu Heung Bu in Korean.

¹⁰ Although its official translation is Economic Development Committee, for political reason, its name is Industrial Development Committee in direct translation from Korean. Since the party in power wanted to limit the power of Committee, it had to be nominated as industrial not as economic which was more general.

development oriented institutions and bureaucrats were formed. It is an initial period of DS especially when looking at continuity of policies in the 1960s such as export-led growth, long-term economic plan and human resources like bureaucrats (SEO C.S., 1995).

The 1950s both contains sprouts to become DS in the next decade and limitations. Under internal and external constraints, it could not become DS. As it failed to have state autonomy and capacity because the U.S. continuously intervened in government's decision making. Domestically, as the nation became recently independent from colony, modern bureaucratic organizations did not have sufficient capacity yet. Bureaucrats were inexperienced and were not specialists. However, the evidences are found in the 1950s as institutional basic works to make DS in the 1960s succeed; there were land reform, legal framework, formation and reorganization of bureaucracy and economic planning agencies. In the late 1950s, economy underwent recession and this was a crisis of import substitution industrialization.

3.3 SUCCESS OF DEVELOPMENTAL STATE: 1960S-80S

The distinctive features of the 1960s from the 1950s are not only astonishing economic growth rate but also contributing factors to achieve this rapid growth. It is clear that the 1950s had institutional basis for the further growth in the 1960s, but it contains limitations such as incomplete state autonomy and the mutual hostage relationship between the capital and the state but failed to have embedded autonomy by lacking performance based principle. The 1960s can be seen as the period which overcame these limitations. The disciplinary role and performance based preferential treatments enabled to have embedded autonomy which is silent feature of the DS. The successful DS was realizable by virtue of national strategy, capacity of the state, embedded autonomy, selectivity, competitiveness, pilot agency and perspicacity of political elites. Based on these, this section examines the successful DS from the 1960s to the 1980s.

President Park who has served a term from 1963 to 1979 through military coup introduced strong state-led economic development plan and the basis for the economic growth was starting to take shape in the 1960s. He is widely considered one of Korea's most powerful and effective leaders by opening developmental state, implementing policies such as modernization and industrialization policies. DS had its golden age in Park's regime.

Economic policies that were implemented in the 1960s and the 1970s have been a bridge stone to Korea's remarkable development.

Since the early 1960s, growth and structural change have been remarkable, rating 6.7 percent of growth of GNP. Between 1963 and 1972, Korean manufacturing sector grew at the annual rate of 18.3 percent. In 1973, Korea launched Heavy Chemical Industrialization and this enabled Korea to grow more even after oil shock. From 1979 to 1988, Korean manufacturing growth slowed down to 11.7 percent due to the end of the golden age and reduced catching up effect.

Especially in the 1960s and the 1970s main economic agent that promoted industrial policy was government itself. State led intervention had coherent objective for achieving independent national development. A five year economic development plan whose focus was improving agricultural productivity and creating representative national industries was the core of Park's achievement. His policies showed strong government led growth such as export oriented policies, multiple exchange rate system by distorting relative prices, import restriction and quantitative restrictions. Korea grew pursuing independent economy based on infant industry strategy.

It is noteworthy that the DS was found by a process of through trials and errors. The Korean DS was not built in a day. At the initial stages of Park's term, in the early 1960s, the DS had incomplete form. While the policy makers clearly had the economic growth in mind to solve the economic difficulties of the people and save them from the extreme poverty, Park's regime, who got power through military coup was not prepared for economic policies. But the strategy and objective were clear; economic growth by guided capitalism and nationalistic democracy.¹¹ Policy-aim and implementing ways were revised and transformed continuously. Learning from the experiences and adaptation of institutions have been rooted in the formation of DS (LEE B.C., 1999).

3.3.1 National strategy and long term economic plan

The existence of national strategy and its implement has been apparent. The keynote

¹¹ The implicit intention behind this clear goal was ensuring legitimacy through economic prosperity since Park's regime lacked legitimacy as it seized power through military coup. The attempts on gaining legitimacy can be observed in various policies of Park and this somehow became one of the motive power of success of DS.

of the state intervention was making Korea as independent economy. The idea of 'Renaissance of the Nation' was introduced. Workers were described as 'industrial soldiers'. Businessmen received medals for achieving export targets. It was a patriotic war against poverty. Moreover, historically Korea has suffered from intrusion of other countries including 36 years of colonial period by Japan. Korean policy maker considered economic power as one of the main force to secure its autonomous sovereignty. Even if the strategy had not been determined clearly at the initial stage, the outlook of national strategy was clarified.

The main institutional step-up of this time are foundation of Economic planning Board and implement of five year economic development plan. Park nationalized banks that had been privatized in Rhee's term, thus got the power to control capital. The base of Park's policy was pro-industry and pro-producer. Through this, the nation achieved capital accumulation, innovation and structural transformation. The government's strategy on economic growth was through industrialization. Moreover, when looking at the industrialization process of Korea, it can be noticed that the structural change has been done by stages. There has been strong intention of the government to industrialize the country. Especially this goal has performed through five year plans by setting priorities industries. The selectivity of policies is proof of the strong intention. Korean state selected 'promising strategic industries' or 'priority sectors' and gave custom-designed financial, technical and administrative supports to these industries. Preferential loans were provided to selected industries with low interest rate.

At the initial stage of his term, industrialization strategy was through import substitution. However, the domestic market size was so small that even ISI concentrated on durable consumer goods was impossible to sustain. After 1957, the foreign aid decreased substantially and to overcome shortage in foreign currency, there arose the need for having new strategy (RYU S.Y., 1996). Moreover, export oriented policy incapacitated the coalition between the state and the capital in the 1950s. Based on this, the state established the new form of relationship, which was embedded autonomy that involved the carrot and the stick approach. In addition, the export oriented policy enabled to overcome the limitation of small sized domestic market by realizing economies of scale (KIM S.J., 2005).

Long term plan to achieve national goal has been through five-year plans. First five year plan started in 1962 and its focus were basic industries such as textile. To have autonomous economy, the plan appointed fundamental conditions for the growth as obtaining

energy resources such as electricity and coal, enhancing agricultural productivity, constructing infrastructure and improving the balance of payment through export growth. The economy has achieved annually average 7.8 percent growth rate and improvement in mining and manufacturing industries led progress in industrial structure. Despite the quantitative results, some limits were present in capital formation by showing annual 15.6 percent of investment rate. Moreover, there was still weak basic industry, lack of source of investment and failure of assuring food self-sufficiency.

From 1967 to 1971, based on experiences and statistics from the past, the plan became more sophisticated and systemized than the past one by reflecting domestic and international conditions for long-term prospects. Not just food self-sufficiency but also sophisticated industrial structure based on steel, machinery and chemical industry were pursued. The balance of payment problem was designed to be solved through export promotion and import substitution. It should be noted that the industrialization started at the full-fledged level in this period. With the rapid expansion in export, the annual growth rated at 9.7 percent.¹² The government was the leader of transformation in industrial structure through state-led plan. This role stood out in this second plan by redirecting the industries to more sophisticated manufacture productions from the existing basic industries. Through this successful experience, policy makers gained confidence on state-led growth. The experience also proved that the state needed to play active role in industrial structure transformation because otherwise no economic agents would be willing to take risks.

Third and fourth five year plan which included Heavy and Chemical Industrialization Programme promoted metals, maritime transportation and electronics industries. Despite the external shocks such as confusion in international monetary system due to Nixon shock in 1971 and the first oil shock, the country managed to succeed annual growth of 11 percent with export-led strategy. The fourth five year plan started to introduce social development and equality issues. However, the side effects of rapid economic growth started to come out such as inflation and real estate speculation. Moreover, external shocks such as the second oil shock made the country more difficult to grow by rating at -5.7 percent. But from 1981,

¹² The rapid growth was possible because free trade regime in the world market helped export expansion. Korea has joined GATT and participated in Kennedy Round. However, it does not mean that Korea conformed to the free market. GATT itself has different characteristic from WTO and left rooms for protectionism method. In this sense, Korea took advantages from it by having opportunity to export and protecting its infant industry at the same time. Export growth rated at 38 percent annually.

economy has recovered to grow 7.1 percent. Although there have been critics on HCI programme¹³, this period became stepping stone for Korea to become newly industrializing country breaking bounds of underdeveloped country.

HCI programme is worth receiving special attention. The industrial upgrade from the light industry to the heavy and chemical industry was due to domestic and external changes. The U.S. decided to withdraw troops partially thus Korea needed to achieve self-reliant defense capability. Moreover, the 8.3. decree which came from chronic budget deficit and sharp increase in foreign debt was temporary solution of inefficient industrial structure by socializing the cost (AMSDEN, 1989). The fundamental solution that the state came up with was stepping up to the new industry, which is heavy and chemical industry. The considerable changes in industrial structure were required from 35 percent of heavy and chemical industry among total industry in 1972 to 51 percent in 1981. Six strategic export goods were promoted; steel, nonferrous metal, machinery, shipbuilding, electronics and petrochemical, which the government considered as having great ripple effect and high possibility of success (KU H.W., 2009).

Fifth and sixth five year plan have distinguishable feature compared to the past. Its focus is stabilization and equality. The introduction of welfare policy started in this period. The policies aimed at stabilizing inflation less than 10 percent, increasing investment efficiency to achieve continuous growth of 7 percent to 8 percent, assuring market functioning through prompting competition, export led strategy by opening the market and fostering industries that have comparative advantages. Neo liberal policies started to permeate in this period but there still existed DS policies. Industrial policy focused on technology intensive sectors such as bio and nano technology. In detail, machinery, electronics, automobile, chemical, shipbuilding and various high-tech industries such as semi-conductor, new materials and bio technology were promoted.

Six five year economic plans led the gradual industrial structural change. The plans show the evolution of industrial policy of the state. Korean state seems to have acknowledged industrial development stages and how to upgrade industrial structure. First it started focusing on basic industries from 1962 to 1966. Then it moved to Chemicals, steel and machinery

¹³ Critics include the over investment and moral hazard in heavy and chemical industry sectors which at last caused rationalisation programme. Most of the criticisms on failure of DS by neo liberals use HCI programme as typical example (CHANG, 2006).

industries from 1967 to 1971. The state conceived the importance of having heavy and chemical industries and started HCI programme. From 1972 to 1981, shipbuilding and electronics were emphasized. From 1982 to 1991, the industrial focus has been on automobile, high-tech industries such as semi-conductor and bio-technology. The continuity of national level plans from 1962 to 1991 is distinctive feature of Korean DS. Compared to those of other developing countries, such as Brazil's Second National Development Plan, five year plans have continuity by having first to sixth plan in accordance with its long-term economic development trajectory.

3.3.2 Industrial policy

Stepping up to the next level industry involves the risk and generates less profitable investment. In the beginning of industrialization, firms tended to stay in consumer goods business because it created more profits. Especially heavy and chemical industries need large economies of scale, which generates large costs at the initial stage. This is the very moment when the active role of state is required. The state should offer incentives in order to step up to the next level. In case of Korea, HCI programme was one of the successful examples.

To step up to the next advanced level of industry, the state has chosen several industries at a time as priority sectors and provided massive support to them. This selectivity characterizes the success of DS because most of developing countries¹⁴ who had national plan and strategy did have general level of state support and could not have successful result. The plans show the state's selection in each stage. Such selection did not come from crony capitalism nor from corruption but from the state's understanding on evolution of industrial stages.¹⁵

Firms received credits, state investment funds, preferential tax treatments. At the same time, they received heavy control, such as controls on technology, entry, capacity expansion and prices. They were instructed what, when and how much to produce by the state. Until the

¹⁴ State's support at general level can be seen in Latin American countries who did import substitution industrialization. The failure of having DS in these countries can be attribute to the non existence of selectivity in industrial policies.

¹⁵ At the initial stage of industrialization, the government set the target model as Japan. So the technological catching-up and copying model was Japan. However, the evolution of its industry changed the role model to German. Amsden (1989)'s assertion that the late industrializing countries only can industrialize through imitation is in line with Korea's experience.

late 1986, the prices of 110 items were subject to negotiation between the state and firms (AMSDEN, 1989). The state also obliged firms to adopt recent technology. In the textile industry, the government deliberately bankrupted the firms that were not utilizing the machinery with new technology. At the initial stage of adoption of new technology, it generates more costs than using the existing one. So the state needs to impose mandatory requirements to diffuse technology. Moreover, when it comes to the industries that needs economies of scale, the more firms enter, it is undesirable due to excess of supply. The Korean state prohibited the entrance when there seemed excessive numbers of firms that would impede economies of scale.

What differentiates Korean DS from other DS is more active role of the state. When there are no private firms to participate in, the state entered as entrepreneur (AMSDEN, 1989). This relived the uncertainty of firms and made sure that they are investing in the right business. The state's participation in industries worked as insurance for firms. During the second five year plan, the government acknowledged the importance of having steel industry. The government capitalized 75 percent, 25 percent by Korea Tungsten Company and founded Pohang Iron & Steel Company.

Competition stimulates the economy since companies struggle to maximize their revenue and minimizing costs by seeking for the improvement on quality of goods and services that they offer. So the state's view on competition issue is crucial. The principle of "No rent is permanent" caused competition among firms to receive preferential treatments. At the initial stage, the government tried to protect local industry from foreign companies. The typical example lies in cotton textile industries, in order to protect from Japanese competition, the government imposed tariffs, quotas, export subsidies, subsidized credit, and so forth (AMSDEN, 1989).

When there is excessive competition, the state took off existing firms and tried to reallocate in the other industries. Korean government has seen competitiveness as an essential but did not let reach to the excessive level. Industrial Development Law has enacted in 1986, which was integration of various promotional laws. This law was protective measure such as import restrictions on competing products. It also was a measure of prevention of excessive competition by accepting state initiated mergers. This law prompted productivity by offering subsidies for expenditure on R&D. It is undeniable that R&D supports and tax incentives enabled technological catch-up.

In high productivity sectors, where needed large scale economies, state-initiated or state-subsidized mergers were done. On the other hand, when there is excessive competition, Korean state restricted entry and regulated capacity expansion. Policy makers saw that excessive competition meant social waste. However, they also used competition as a mean to achieve efficiency. When distributing benefits such as licenses and subsidies, the state led competition among candidates. As mentioned above, tight monitoring system allowed Competition helped to improve R&D, quality and efficient production scale.

Policy makers also put emphasize on investment, which was essential for growth. They tried to repress consumption demand through policy measures by using paternalistic terms like ‘The need to establish a sound consumption pattern.’ This anti consumption policies were all over the economy. Koreans have owned far fewer passenger cars than people in other developing countries. This policy is more about ‘investment management’ rather than ‘aggregate demand management’ (CHANG, 1994).

3.3.3 Trade policy as export and import control

To establish high productivity sector, it is necessary to achieve large scale economies. Especially with the small size of its domestic market, the only mean to ensure efficient production scale was through export. At the initial stage, export was considered as a mere mean to reduce unfavourable external balances rather than the engine of growth. For that, dependence on foreign saving was the last resort. Balance of payment problem was because of underdevelopment of the capital and intermediate goods industries. Therefore emphasis on heavy and chemical industries was important to realize independence of Korean economy (CHANG, 1994). As time passes, export started to be considered as one of the engines for achieving growth. Firstly the state used infant industry protection strategy. Selected industry in accordance with national strategy was under protection with massive support.¹⁶ After the infant industry became capable of survive in the international competition, the state forced it to export. The exposure to the world market did not happen overnight.

Import was freely permitted only on raw materials. To promote domestic machinery

¹⁶ It should be noted that this massive support was not a permanent one. When there showed inefficiency, the state was willing to cut the support. The bankruptcy of Gukje Group in 1985 proved this mechanism. The state deliberately put this company out of business due to management inefficiency.

industry, imports on machineries were practically prohibited by offering subsidies up to 90 percent on purchasing domestic machineries.

Tight control over foreign direct investment is important as well. Imitation and assimilation to advanced technology were encouraged to domestic firms by restricting entry of foreign firms. Full ownership by foreigners was strictly prohibited and this is worth giving attention when compared to 60 percent of Brazil¹⁷. In 1988, as Law for Importation of Foreign Capital amended, control has weakened; however still limits in priority industries and infant industries.

3.3.4 State capacity and embedded autonomy

Another point stated is about state created rents. In most developing countries like Turkey and India, rent seeking has taken these countries away from development. However, Korea succeeded because first, Korean state certainly is subject to influence. State autonomy is the crucial key to accelerate economic growth (AMSDEN, 1989). Rent seeking could not happen because the state did not guarantee permanent rent. One of the proofs can be that among the ten major firms in basic industries in the 1960s, only two firms ranked at major ten firms in the 1970s.

Korea has a social structure with no powerful social class to contest state power. Land reform contributed to the dissolution of the landowning class. Korean War left no space for political organizations of working class and farmers. The first constitution and the second amendment solidified free economic system from controlled economy. President Park's export oriented strategy leaving ISI model disarmed the existing coalition in the 1950s.

Country's capacity on mobilization and reorganization of its resources to achieve certain goal is also important factor in examining developmental state. Its self regulating and coherent state bureaucracy organization are worth paying attention. For ideological reason, Korea had comparable powerful bureaucracy organization, often receives criticism as authoritarian state. This state bureaucracy organization held a dominant position over civil society. It established leading organization that controlled overall economic policies and this

¹⁷ Even FDI creates employment and stimulates economic activity; FDI cannot be engine of national development principally because 1) possibility of not conforming to national plan 2) revenues transferred to the country of origin 3) difficulty of succeeding in technological diffusion.

enabled Korea to have organized and institutional basis for developmental state.

The state's capacity mostly depends on the bureaucratic system which can concretize and materialize the national development plan. Since Park's government had flaw of legitimacy issue, he tried to promote specialized and professional bureaucrats to complement its vulnerability. He amended National Public Service Law, strengthened education and training, reinforced competitive examination, increased salary and improved pension system in order to encourage qualified to become public officers and filter unqualified to become one.

To assure bureaucrats develop their full potential, the autonomy of bureaucracy organizations has to be guaranteed. In 1960s the Economic Planning Board was established as an institutional measure for effective execution of developmental policies. The Board was leading institution for economic development. As the main goal of the country was economic development, the political importance and its influential power were substantial. The Board and the president were pilot agency at the initial stage of Park's term. The Board was formerly the Department of Revival of Rhee's term. Other than maintaining planning function, the Board also took budget function from the Ministry of Finance and statistics and research works from the Ministry of Home Affairs. Korea Development Institute (KDI) was founded and it strengthened professionalism of policy makers.

The state could finally have comprehensive and integrated policy making process. This cohesiveness of bureaucracy from research to policy decision led the country to highly competent state capacity (CHIBBER, 2002). The cohesiveness enabled the government implement policy in a timely manner. The example lies in The New Village Movement, which was a nation-wide local village modernization project. The State supplied gratuitous raw materials and the locals modernized their villages by constructing irrigation systems, bridges and roads. At the initial stage of this movement, complicated administrative procedures impeded the rapid progress. So the blue house set up local administrative agencies and they directly communicated with the blue house.

Now that we have seen what backgrounds were to form strong state, the salient mechanism of DS is needed to be analyzed; embedded autonomy. What distinguishes Korea from other late industrializing countries is reciprocity between government and private firms. Fundamentals of industrial policies of late industrializing countries are similar. However, the gap started to rise because of different way of managing institutions. In case of Korea, this distinctive management style is the carrot and the stick approach. The state not only offered

preferential treatments but also did disciplinary role. Most of the developing countries lacked the stick approach and ended up forming back-scratching alliance of government and businesses. It needs to look at how Korea could use the stick approach.

Korean government imposed performance standards in exchange for subsidies. The most notorious example is monthly based export performance monitoring. The export promotion conference with enlarged membership among the minister, representatives of the industrial and financial sector hold meetings assessing monthly and regional export performance item by item. If the performance on export, R&D and new product introduction evaluated in terms of production and operations management is good, the firms are continued to receive subsidies or licenses. Tight performance monitoring system not only worked as stick, but also made the state be the best at obtaining information. Information enabled the state to envision long-term economic goal and saved it from wasting time to information seeking behaviour. It reduced transaction cost and collective action problem (KU H.W., 2009).

Benefits that were rewarded to good performances including subsidies were confined to small groups who had exclusive access. So there might have been side effect if the benefits were always given to the same exclusive groups. However, the state made it clear that “No rent is permanent”. For policy makers, it did not matter who runs a business as long as it runs efficiently. From the moment that the industry was conceived as inefficient, the state intervened, revoking licenses, fining and sentencing prisons to the owner (AMSDEN, 1989). The remedy was intentional bankruptcy by the government. If Chaebol does not run a business well, ownership has to be transferred to another Chaebol or to the public sector (CHANG, 2006). For example, the largest producer of cement industry went bankrupt because it continued to use old technology while the government encouraged adoption of new technology. There is interesting point, that Korean state has been willing to withdraw support when performance was bad. The mechanism was that only rewarding good ones and penalizing poor ones. This acted as a powerful incentive for firms to enhance their technological capabilities as well.

Several rationalisation programmes support this argument well. In the late 1960, numerous inefficient firms emerged as a consequence of investment boom. From 1969 to 1972, task force by the state did mergers, sales and liquidation of the firms. Most notorious rationalization program in Korean history is 8.3 decree, which still receives credits for the state’s decisive role in private sector or critics to bailout the firms that had moral hazard.

The state successfully managed opposition forces. It not only smothered the voices of the opposition by authoritarian way, but also reflected their demands. The new community movement explains this well. Although the government made strong efforts on mobilization of domestic capital, it still had weak material foundation due to lack of national resources. As a solution, the state moved its long term industrialization strategy from exports of light industry goods to heavy industry goods that had higher added value. However, this heavy industry promotion strategy caused rural urban migration and rural population's alienation and frustration for absence of development in rural areas.

The government had to confront this critical situation thus introduced the new community movement. It was a nationwide project developing all regions evenly including farm area. The movement arose under the crisis of DS but as a consequence, it strengthened DS. Income increased in rural area from \$824 in 1972 to \$2,961 in 1977 by solving disparity between the rural and urban area. It improved the basic conditions of living through increasing electricity distribution and telecommunication facility.

3.3.5 Monetary policy

When talking about financial policy, it is obvious that Korea used strong capital control policy. Unlike neoliberal interpretation on its economy, it has used fixed exchange rate. Even after liberalization of exchange rate, the fluctuation was heavily controlled by the government.

In Rhee's government, financial policies were implemented for the purpose of curtailing inflation after the war. However, the role of financial policies was incomplete and did not go successfully. Low regulated interest rate caused more inflation and financial favours. In Park's term, financial reforms were carried out. Government unified the bank for agricultural sector and founded the Small and Medium Industry Bank. Moreover, it re-nationalized banks privatized in Rhee's term. This was the most effective means of controlling private firms since their survival depended on credit supply (CHANG, 2006). It also amended law to put central bank under the Ministry of Finance. Nationalization and undermined power of central bank were crucial because as the state now achieved control power on financial market, enabling financial policies to be means to implement developmental policies.

Monetary policy is subordinated to the industrial strategy (HAGGARD; CHUNG;

MAXFIELD, 1996). Financial policy is used as a tool to achieve economic growth. When it comes to exchange rate, the currency has to be undervalued to promote exports. At the same time, overvalued currency is needed to diminish the cost of foreign debt. This contradictory relationship applies to the interest rate as well. Interest rate has to be high to accumulate savings; however, simultaneously it also has to be low in order to stimulate investment. This contradictory relationship requires the intervention of government such as having multiple exchange rate and interest rate (AMSDEN, 1989).

Exchange rate policy and interest rate are important means to the state-led growth. Park did tight control over exchange rate. The state regulated foreign exchange trade. Unless trade is permitted on business purpose, possession of exchange rate was strictly prohibited. Export was considered as the only means to get over from the economic dependency and foreign currency was the fruit of export. Subsidies to export companies from tax gathering not only made workers as industrial soldiers but also made export companies as beneficiaries of public goods. Thus, their decisions had to consider public interest as well.

In 1964, Park did devaluation of exchange rate; changed into single floating exchange rate system, re-checking interest rate. Linkage structure between rental seeking politicians and entrepreneur was collapsed. Capitalists now could not receive preferential treatment due to this reform and began to depend on the introduction of loan which had lower interest rate. Dependence on loan meant dependence on state elites since enterprises needed permission to get loan from the government. Park also used flexible bank-rate policy. In mid 1960s, it mobilized domestic savings and induced enterprises to loan based export oriented industrialization. From the early 1970s, government could successfully attract enterprises to heavy chemical industry that needed huge capital.

Moreover, 'Export financing' is a crucial factor when discussing effective financial control. State allocated funds based on export performances of enterprises. It applied lower interest rate to export financing. State controlled allocation of capital directly and this enabled it to promote export, strategic industry and, by extension, to succeed advanced industrial structure. Transition to heavy chemical industry in the early 1970s may have been impossible if it had not been a strongly regulated financial control and policy loans. As Chaebols were passive at investing in heavy chemical industry, government needed to create incentives to attract them. During this process, strategic interdependence between developmental state and Chaebols was formed.

The Korean DS (WOO-CUMINGS, 1999) has been transformed its form in accordance with the domestic and external crisis. As overcoming the crisis, the DS has changed the role itself. Through 8.3.decreed, the government intervened in the curb loan market and wrote off debts of firms so that the firms could survive. 8.3. decreed often receives criticism as being the prize to the interests of capitalists. However, the decreed was implemented to tame private firms and achieve political objective as economic growth by accepting demands of capital. Secondly, there was rationalisation of heavy and chemical industries in the late 1970s. President Park's industrial policy caused overlapping and excessive investment and inflation after the second oil shock (KIM I.Y., 2008). The evolution of the DS has occurred by selective adaptation. The DS has not always occurred with rigidity. The core success of DS lies in the evidence that it did flexible transformation in line with the changes in circumstances. The DS replicated some policies from the past and transformed them if the circumstances needed revision on it.

3.4 THE WEAKENED DS

Korean DS started to lose its power due to several reasons and the evidence shows clearly its decline. This section presents these reasons such as changes in class structure, globalization and the rise of democracy within the historical context by showing evidences of decline.

3.4.1 The reasons of weakening

Divergence of economic growth between late industrializing countries after the 1980s has brought about the debate on development among economists both for neo classicals and institutionalists. Despite the different interpretation ways, they share commonalities; national strategies implemented by policies and institutions, methodological nationalism and state as a leader to take responsibility of economic growth. However, the discussion came to an end with the rise of neo-liberalism. In line with the disappearance of Keynesian welfare state in developed countries, the dissolution of DS model has occurred in developmental strategy. Keynesian welfare state which implements fiscal and monetary policy to achieve full

employment came to an end due to asymmetric and low growth of developed countries, so as to DS by declaring the end of using fiscal and monetary policy to achieve industrial development (MEDEIROS, 2012).

Neo liberalism policies opened the space for globalized capital thus requiring developing countries to ensure minimal state and market efficiency. Although the East Asian countries were not affected by the debt crisis of developing countries in the 1980s, most of developing countries were forced to take instructions of Washington consensus especially in Latin American countries. The countries were obliged to open their capital market. Then it started unregulated markets causing speculation and unsound investment seeking for short term return. The invasion of cosmopolitan capital in developing countries has harmed the soundness of their financial markets. Unlike the DS countries did industrial policies with the support of financial policies such as depreciated monetary and low interest rate, there was no space for policies which can be compatible with industrial policy to achieve growth. The main tool that neo-liberalism used was through free trade. They required both developed and developing countries to lower tariffs and restrictions on trade. They emphasized specialization logic that countries have to produce what they are good at. As most developing countries are not industrialized, their comparative advantage insists them to produce primary goods or simple industry goods, which blocks dynamic growth. Thus the industrialization led by the state, which was the main feature of DS became no longer exist. In conclusion, industrial policies and monetary policy that were used as main tool to achieve industrial development became no longer possible in developing countries, so as to Korea.

When looking at Korea's case, in the 1980s, the conflicts between the U.S. came from economic reasons. Korea was accumulating trade surplus against the U.S. as its major export country was the U.S. On the other hand, the U.S. was in economic trouble with twin deficits and strengthened protectionism as a consequence. Korean state was not able to autonomous from it because its military government obtained legitimacy through the U.S. has overlooked it. So the Chun's economic stabilization and liberalization were implemented not only to solve inefficiency of Heavy and Chemical industries, but also to conform to the U.S.'s demand. To recover from the recession, Chun's government needed massive capital. World Bank and IBRD offered credits on the condition of liberalization of imports, tax reform and deregulation of foreign exchange. These international organizations were deeply involved in designing the fifth five year plan, which emphasized privately-led economic growth

(SHIN ,1990; CHUN, 2004).

In the early 1980s, the pressure was focused on liberalization of imports such as opening up importation, reducing import duties and discarding non-tariff barrier. The liberalization pressure started in earnest at the middle of the 1980s. Trade liberalization, appreciation of the won and opening of service market were demanded by the U.S. By the early 1990s, liberalization of financial, foreign exchange and capital was main issue. In 1992, the government announced three level financial liberalization and globalization plan. And this was reflected in financial reformation proposal of new economic five year plan.

As Korean DS contains the feature of authoritarian state, it started to weaken with the rise of democracy. The mechanism of strong enforcement by the government could no longer coexist with democracy. Moreover, cohesiveness of bureaucratic organization faced with confusion as newly introduced democratic procedures to implement policies were different from those of authoritarian government. Under the centralized authoritarian government, the pilot agency gave orders to the economic agents and especially bureaucrats followed the ruling office's directions without hesitation.

In 1988, pro democracy demonstrations marked a turning point in South Korea's political history; beginning of the breakdown of the authoritarian regime and of democratic transition (KIM, 2010). From the 1970s, there has been pro democratic movement (CHANG; EVANS, 2005). The first movement can be proved by the election of President Yoon. Students demonstrated against authoritarian Rhee's government and this pro democratic movement is called the Revolution of 19th of April. As a result of it, Rhee fell from the power and Yoon was elected for the fact that he was fighter for independence from Japan and contributed to the democratic movement. The revolution showed the development of democracy; however, it ended up as a failure due to the incompetent government and yielded the reins of power to the military government, President Park. After experiencing military dictatorship for thirty two years, President Kim Young Sam was elected and finally the authoritarian government came to an end. Kim was a politician from an opposition party who participated in democratization movement during the period of military government. The election of Kim opened up the era of democracy and his term today is called as civilian government. However, the government compromised with military dictatorship thus showing the limitations on true democracy. The next president Kim Dae-Jung who campaigned for democracy truly ensured the country's democracy.

Changes in class structure also contributed to the dismantling of the DS. From 1982 to 2002, so called 'Double transition' has occurred (KIM, 2010), economic liberalization and democratic transition. The class structure has undergone major changes in this period. The 1980s were tumultuous period because the political system remained undemocratic and authoritarian. During the period of successful DS, the state has organized, supported and controlled capital. However, as a result of growing capital, private firms became in the equal position with the state, thus precluded the state from doing disciplinary role. Chaebols did gradual expansion in both domestic and global markets; their sales accounted for 15.1 percent in 1974, 26.0 percent in 1977, 48.1 percent in 1980 (KU H.W., 2009). As Chaebols got the power, they began to push for economic and financial liberalization seeking for revenues. They no longer needed the state because they could do financing without the state's help by borrowing overseas funds and using nonmonetary institutions.¹⁸ (KANG, 2002; MOON; MO, 2000).

The emphasis on private sector led economy and market economy has started. Privatization and economic liberalization were carried out allowing free capital flows and foreign investments. Chaebols began to increase their economic influence in domestic and international markets. The contradiction is that its success will eventually lead to its demise with the growth of its challenger. The 1960s was their infancy, the 1970s and the 1980s as adolescent and the 1990s was on the way to go to maturity. However, the basic structure of their businesses was still a product of state control. Seeking for the revenues, the governmental intervention now became only obstacle for them. They started to push government to open its financial market to receive foreign capital.

The success of Korean DS is based on the oppression on labour forces restricting increase in salary and demanding long working hours. With the increase in GDP per capita, the working class started to express their needs and started labour movements. As a consequence, wages began to rise sharply and Korea no longer had a competitive advantage in many export products. Internationally, the foreign markets started to criticize protectionism of DS countries like Japan, Korea and Taiwan and put pressures on them. Other nations started to produce export goods at cheaper price like China. Political system itself caused weakening of state autonomy. Frequent labour strikes, tiresome mutual control by ruling and opposition

¹⁸ This massive and unregulated capital inflow caused the crisis in 1997 (KANG, 2002; MOON; MO, 2000).

parties were signs of fall of DS. So the sequence of economic liberalization to democratic transition left the state's developmental institutions weak in the face of global competition and external shocks (KIM, 2010).

With the economic growth, there happened expansion of middle class. Along with increasing force of upper class, the consumption demand on luxurious goods exploded. During successful period of DS, the state used consumption control policy to accumulate more investment. Especially the luxurious goods such as imported products are considered as antipatriotic since it was shown as waste of foreign currency instead of importing raw materials to produce more (CHANG, 2000).

Liberalization has taken another root as having indirect pressure. Changes in policies occurred in this period due to the public officers who studied in the U.S. Since Chun's government, the number of bureaucrats who have come up with Washington Consensus policies increased rapidly (AMSDEN, 1994; WOO-CUMINGS, 1997). In the light of neo liberalism, they implemented neo liberal policies such as opening the market; deregulate financial market and privatizing state-owned companies. In company with the U.S.'s pressure on liberalization, these bureaucrats strengthened their influences. The earlier policy makers who studied in Japan were influenced by Friedrich List, Joseph Schumpeter, and especially Marx (CHANG, 2000).

Asian crisis of 1997 solidified the fact that there would be no revival of DS by explicitly transforming into regulatory state. Mainstream economists accused the crisis in 1997 of the DS policies. On the basis of this argument, the IMF required Korea to open its financial market at substantial degree. The common interpretation on the crisis in 1997 is the crony capitalism and moral hazard which was believed to enable big businesses to undertake excessive risks. According to neo liberalism, the logic of "Too big to fail" allowed big businesses to have reckless management and this led to the Asian crisis. They saw moral hazard as the consequence of DS. It was obvious that a private firm's bankruptcy would have rippling economic and social effects by decreasing banks' revenue and increasing unemployment. This enabled additional credit offer to become usual practice and brought about moral hazard of private firms at last. What makes it special for the crisis in 1997 is that with the larger scale of economy, additional credit line became burden for the state. Moreover, its export oriented growth strategy and consequently deep dependence on the international market made the economy more vulnerable when the export performance was bad. Decreased

export revenue was supplemented by the state's credit (WOO-CUMINGS, 1999; YANG J.J., 2005; MOON; MO, 2000).

However, Chang (2006) argues that the moral hazard is a product of capitalism, not exclusively of DS, by showing that it has always been present in the development of capitalism. Institutional forms determine its aggressiveness. It is true that the socialization of risk which was DS's strategy involves costs such as moral hazard and crony capitalism but the benefit it brings is larger such as high productivity and well oriented investment management (CHANG, 2006). Moreover, when looking at the reason for not having these costs during the successful DS period is embedded autonomy. On the other hand, as the balance of their relationship has broken with the rise of Chaebols' power, the state could no longer prevent these side effects since it cannot legitimize disciplinary role (KANG, 2002).

In fact, the causes of crisis in 1997 were over-production, fierce price competition, reduction in sales profit, uncontrollable debt, bankruptcies and mass unemployment. As enlarging economic scale, financial regulation became unsustainable and embedded autonomy between state and capital no longer subsisted. DS has been undermining since the 1980s and policies from President Kim's government were exclusively based on neo liberalism, which enlarged moral hazard of Chaebols and financial institutions (YANG J.J., 2005). Domestic factors also affected the dismantlement of DS in Korea¹⁹. So the difference between the crisis in 1979 and 1997 lies in the fact that the state lost its capacity on crisis by allowing financial de-regulations (KUK M.H., 2006). The crisis in 1979 could be managed well since the state's disciplinary role on capital was valid (YANG J.J., 2005). So the remedy of IMF to recover from the crisis, de-regulation and liberalization seems to be repeating a vicious circle.

3.4.2 The evidences of weakened DS

The signal of disappearance of DS started in President Chun who took office in 1980 was the beginning by implementing inflationary policies, privatizing banks and introducing Industrial Development Law which contained functional industrial policies contrary to selectivity (YOON S.W., 2002). Industrial policies took passive form in this sense;

¹⁹ Korean DS is noteworthy not just because of DS having worked better than East Asian countries but also because its disappearance has happened absolutely and drastically compared to other East Asian countries who still maintains DS features like Taiwan or did gradual transformation like Japan (CHANG, 2000).

subsidizing technological development and reinforcing competitiveness (KIM; LEIPZIGER, 1997).

The law for promoting⁷ existing industries as machinery, electronics, textile, steel, nonferrous metal, petrochemicals and shipbuilding was abolished. On the background of discarding selective industrial strategy, there was slump of HCI. It was originally designed to attend foreign market, but the decrease in demand from the second oil shock depressed HCI with excessive investment and production. HCI was seen as inefficient strategy thus the government started to recognize the limitations on excessive government intervention. The pilot agency, the Economic Planning Board existed but no longer was in charge of industrial policies. The Ministry of Commerce and Industry assumed the Board's role. But there was unclear role between them and the Ministry was defending neo liberalism while the Board continued DS oriented policies. This weakened cohesiveness of bureaucratic organization and consequently the state capacity.

Financial liberalization started in line with the disappearance of industrial policy. His government diagnosed that the DS policies caused moral hazard and inefficiency of financial institutions. The first step was through privatization of commercial banks. Moreover, the entry barrier for nonmonetary institutions loosened and this led to the rapid expansion of nonmonetary institutions. Their expansion caused increase in uncontrollable credit supply in the economy thus weakening the reciprocity of the state and the capital. The state autonomy lessened. To liberalize interest rates, the state opened the market for short term finance and commercial bill. To ensure autonomous asset management, reserve requirements ratio decreased gradually (CHOI B.S., 1991; KU H.W, 2009).

However, DS did not come to an end in President Park's term. Although there showed institutional liberalization policies, there still remained DS features in practice. This was possible because even banks were privatized; credits were regulated through window guidance (CHOI B.S., 1991). The financial policies were still subordinated to the industrial policies. National strategy for long-term economic growth existed although its policy orientation was toward neo liberalism.

President Kim Young Sam abandoned defensive protectionism, stimulated privately led initiative and abolished pilot agency such as the Economic Planning Board and long term

economic development plan²⁰. He emphasized the liberalization and globalization which brought about the end of DS. Korea's joining in OECD had conditionality that required opening its market.

Weakening of DS regime has started from President Chun and the next Presidents' terms have had characteristics of mixed policies between regulatory and DS policies. The existence of DS style policy is because of path dependency (KU H.W., 2009). However, as the core of DS is embedded autonomy, bureaucracy, the state capacity, pilot agency, national strategy, government-led policies and selectiveness, the political regime after President Chun cannot be called as DS.

The hallmark of DS, which is industrial policy began to disappear from the late 1980s and became almost extinct in the mid 1990s. Financial liberalization started from 1991 by opening the capital account to the foreigners (CHANG, 2006). However, there exist still institutional legacies of DS due to its path dependency. This also opens the possibility of revival of DS. Liberal government was elected for the first time in 1997. Economic equality and autonomous foreign policy were emphasized. Korea maintained a big government. Public spending on social welfare increased rapidly since the 1990s. The goal was to achieve 'productive welfare' with increase in national budget. Another remarkable point is transition from manufacturing based economy to knowledge based economy. However, this resulted in 'jobless growth' by causing decline of labour intensive markets. Many critics argue that this period was not a true autonomy but a 'government-led' autonomy. Last stage is called New developmental state from 2008 to now. The government emphasized on market friendly economic policies and on growth oriented policies (KIM, 2010).

²⁰ Five year economic development plans have been implemented from 1962 to 1991. After the Second World War, capitalism countries started economic planning. Advanced countries did anti-cyclical planning, which had passive form just preventing recession. On the other hand, developing countries implemented development planning, whose main objective was economic growth, modernization of the society and enhancement of industrial infrastructure. So, the mere existence of economic planning does not guarantee that there was DS. It is necessary to look at what kind of plan a country designed. The fifth plan has distinctive characteristic compared to the others; it is more market-oriented and focused on economic stability such as inflation. Its name has changed to economic and social development plan thus emphasizing sustainable growth and welfare.

3.5 REVIVAL OF DEVELOPMENTAL STATE

The possibility of revival of DS has been accompanied by discussions on Korean development. However, the surroundings have changed and some difficulties present to lead its revival. This section explains these changes and gives justification for its revival.

3.5.1 Discussions on development

To join the ranks of advanced countries, the current economic situation cannot but consider on development issue (YANG J.J., 2005). The weakened DS with the democratization and the globalization and being targeted as the cause of crisis in 1997, DS became recognized as an objective to be discarded and lost vigor of academic research on it. So its effectiveness became in question thus revised role of DS is needed. There have been discussions on development after development in Korea. The mainstream approach is the regulatory state that emphasizes the market efficiency and fair competition rule. The second approach is competitive corporatism which models small but strong country like Netherlands. The third one is neo developmental statism that claims to succeed DS's legacy (YANG J.J., 2005).

Regulatory state is based on ordoliberalism²¹ which conforms to free market and minimal state. But it differentiates from market fundamentalism since it does not believe that market would bring efficiency and at least the state has to formulate rules as signal for economic agents. This way the state becomes rule maker or referee. The state designs sophisticated devices for regulation to induce fair competition in the market and operates with them (YANG J.J., 2005). The first approach as regulatory state is repetition of the past because Korean state contains features of regulatory state since President Chun's liberalization and stabilization started. Kim Young Sam's government has tried to transform into the regulatory state under the small government. But the lack of the spirit of ordoliberalism led moral hazard of Chaebols and financial institutions.

In Kim Dae-Jung's government, the regulatory state came on economic scene full-

²¹ Regulatory state is affected by both neo liberalism which is market fundamentalism and ordoliberalism. It is influenced by neo liberalism from the fact that criticisms on immoderate welfare policies and Keynesian governmental intervention led deregulations and excluded direct governmental intervention. Evidence on ordoliberalism can be found in attempts to establish market order through re-regulation.

fledged especially when managing the crisis. Until Kim Young Sam's government, it has been period of adaptation of democratization. The national sense of crisis in 1997 made the state have support of the people and this way it recovered the state autonomy. Political stabilization and consequently recovered state autonomy opened the opportunity to become regulatory state with the combination of neo liberal reform in the past and ordoliberalism. Kim's party has been forever an opposition party thus the cosy relations between politics and business was easy to eradicate. Political reform excluded existing bureaucracy from the Ministry of Finance and Economy and established the Financial Supervisory Commission and the Ministry of Planning and Budget. This enhanced autonomy of organizations thus made them be in the forefront of political reform (YANG J.J., 2003; MO AND MOON, 1999). Besides it succeeded some features of DS such as implementing selective industrial policy in IT sector and promoting venture companies. For industrial rationalisation, the state pushed forward with 'Big Deal'²² (KIM I.Y., 2008).

Kim Dae-Jung's term could be seen as recovery of state capacity and autonomy. And this change contributed to the economic recovery after the crisis. Although the regulatory state in Korea has been incomplete, strengthening financial supervisory system and fair trade system was an opening sign of appearance of the regulatory state.

Roh's government has mixed characteristics of social concertation, regulatory state and DS. It tried social concertation as a way of achieving growth at its initial term but failed to settle it. The evidences on regulatory state can be found such as making central bank independent and regulating Chaebols (KIM I.Y., 2008). The second approach, social concertation and competitive corporatist model put labour, capital and the state in equal position. The state cooperates with labour and capital and plays role as mediator between economic agents.

The European countries who followed social concertation such as Austria, Finland and Sweden share similarities with the East Asian DS (EVANS, 1995). They have long tradition of having centralized bureaucracy and bureaucrats have been experts and in good social position. They also have had the state-led economic plans. Third, embeddedness between the state and the society has been well established except for labour class. Through embeddedness, they have shared ideas and have made policy decisions. The states guaranteed market and private

²² The state forced Chaebols to exchange big businesses between themselves to achieve business specification. This allowed them to concentrate their capacity in core business and possess international competitiveness.

property but it provided subsidiaries, controlled price and credit and adjusted interest rates. The most important commonality is that they are export oriented economies.

The commonalities made economists reconsider on European competitive corporatism as an alternative to the DS. In competitive corporatism, labour, management and the government cooperate in order to secure national competitiveness but do not harm social stability (RHODES, 2001). In case of Netherlands, the labour agrees on labour market flexibility but instead the state and the capital strengthen social security system thus securing flexicurity (VISSER; HEMERIJCK, 1997; OORSCHOT, 2001; YANG J.J., 2003; 2005).

There were attempts to institutionalize European social concertation between labour, management and government after the democratization. In 1996, President Kim launched Labour Relations Reform Council to design new relationship between labour and the capital (YANG J.J., 2005). The social pact in 1998 contains improvement in Chaebols' dominant governance and in managerial transparency, introduction of flexible labour market, securing social welfare policies and labour basic rights.

The third approach is neo-developmental statism²³. This approach has a view that even East Asian countries became on the list of advanced industrialized nations, they still have way to go in order to join the ranks of developed countries. Especially Korea needs second stage catching-up system.

In the 1980s, the first generation of developmental state theorists emphasized the concepts of the state autonomy and capacity over capital (AMSDEN, 1989; JOHNSON, 1982). As entering the 1990s, the principal concepts of the state autonomy and capacity have developed to include the delicate relationship between the state and capital, which is called embedded autonomy by Evans (1995). Recently the academic discussions on the DS tend to be deepened and diversified with various subjects and methods. Attempts on applying DS theory to the other countries like Europe and Africa were done in order to gain theoretical universality. Korea's case has been deepened and diversified as well. Research on bureaucratic system (HA; KANG, 2011; B. KIM, 2011; STUBBS, 2011), industrial and financial policy (LIM, 2009; THURBON; WEISS, 2006; PIRIE, 2005), international relations and global system (YOON, 2006; GRAY, 2011), Welfare policy (KWON, 2005; PENG;

²³ Discussions on continuous existence of the DS and new DS are in Ryu and Wang (2007), Lim and Lee (2009), Cherry (2005), Chu (2009), Kim J.I. (2012), Thurbon and Weiss (2006). The term 'neo-developmental statism' is used by Yang J.J. (2005) which refers to re-discussions on state-led development and reconfigured developmental state theory.

WONG, 2008) and the origin and formation of the DS (DONER ET AL., 2005; KIM; VOGEL, 2011; VU, 2007) are examples (PARK S.Y., 2012). In line with the academic changes of the DS, the reconfigured DS which can range over extensive subjects is required.

3.5.2 Changed circumstances and justification of revival of DS

After the Washington Consensus, the world economy environment was dominated by the ideas of liberalization and globalization which were materialized through transnational organizations such as the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO). Under this circumstance, the policy space for state intervention was reduced, and *laissez-faire* prevailed. However, the 2007/2008 global financial crisis and the so-called “great recession” marked a turning point of this thinking. The lesson from the global financial crisis made economists question on neo liberal policies. With the reemphasis on Keynesian economics, countries became visible hands by reaching at consensus on expansionary policies through adjusting interest rate. Substantial critics on Washington Consensus finally made voice due to crisis which invited to set up a new role of the government (CUNHA, 2010).

However, it seemed to be a stopgap for expansion of crisis. This discussion lacks development issue. It is still an alternative for countries that kick ladder (CHANG, 2002). Active role of the government for development left to be discussed. First difficulty of development issue lies in industrialization issue. Globally, the world’s industrial structure underwent major changes due to the rise of China. China’s aggressive growth and occupation on world market with cheaper labour forces threatened other countries. Especially, countries that has grown with the export of manufactured goods such as Korea, suffered from the emergence of China by transferring majority of manufacturing factories to China.

This changing world’s environment sheds new light on productionist view. However, it cannot jump out the conclusion that there is no room for industrial policies. This is the very moment why the active state’s role in industrial policies is needed. To achieve development, industrial structural transformation is necessary (CHANG, 2010). The state as a leader of industrialization was indispensable in DS countries at their initial stage of development. Now the more advanced industrial structure requires more sophisticated role of the state in achieving dynamics of economic growth.

The successful DS is not a subject to be discarded but a subject to be succeeded and reconfigured and become new DS (WEISS, 1998; SHIN; CHANG, 2003; CHANG, 1999). The state's simple role as rule maker would not promote the dynamics of economy. And the state's role as mediator to result in cooperation between labour, management and government is limited in a sense to achieve further development. It cannot be emphasized enough that the state and industrialization are inseparable relation. The state has to play a leading role in development and to do that, transformative capacity is required (WEISS, 1998).

As DS theorists including Amsden (1989) assert, late industrializing countries need different model from advanced countries' globally standardized model. Based on the principal mechanism of the past DS, the reconfigured DS has to be grafted together with the past DS. To upgrade industry, someone should take the risk and invest in a decisive manner. And the state is the one who takes this role as a leader.

According to Chang (1999), under the circumstances that numerous economic agents are intricately connected, developing and reorganizing industry need to be adjusted and the only legitimate entity to process this adjustment is the state. Without adjustment by the state, the transaction cost would increase and market failure occurs thus obstruct reorganization of industry. Moreover, long term economic plan which is indispensable condition with economic development, involves selection and exclusion. This selection and exclusion cannot be created autonomously thus the state's role as entrepreneur is required. Rationalisation and advancement of industry generate dropouts and this involves social conflicts. The state has to be work as insurance to secure dropped-out firms and labour.

There is still demand for further development among Koreans from the fact that it has not reached level of advanced country. To come up to Koreans' expectations for development, the role of DS is still important. Korea's ongoing hope to become advanced country still reflects in economic policy decisions. The evidence can be found in the presidential election; Lee elected in 2008 used slogan as the economic President. The desire to become like European welfare state is also reflected in policy decisions. Economic democratization by President Park reflects the demands to achieve social equality. The achievement of industrialization and certain degree of economic growth left new assignment for Korea. The role of DS needs to be revised due to changes in class conflicts and changes in the external factors. As embedded autonomy has been key mechanism of DS, it needs to look into its visibility in this changed environment.

The developmental strategy that led Korea to the current level should be maintained and revised in accordance with the internal and external changes. They are aware of changed relationship between Chaebols and the state, increasing pressure of opening the domestic market to the world. Moreover, the major challenges are that Korea now achieved sophisticated democracy and quasi-converged economy with advanced industrial structure. It is obvious that the past model of authoritarian government can no longer be applied to the current situation. In order to re-establish DS, it is crucial for them to decide which feature that a country should succeed and which feature should be discarded.

Even the DS has disappeared in the economic scene, its legacy has always been present. President Kim Dae-Jung's industrial policy selected IT industry as growth engines industry and raised venture business. Semi-conductor, IT and mobile communication had good performance. Even it was not a state-led industrial policy, which actually was privately-led policy, DS policies domestic market protection, supporting plans and subsidy policies to reinforce competitiveness. The state raised venture business startup funds; the interest rate was 5.9 percent which was lower than general companies (LEE; LIM; JEONG, 2002). The state went deep into the details of selecting a firm to take lead in growth industry.

To overcome the crisis, the government injected public funds and liquidated insolvent banks and led 'Big Deal' to adjust duplicate investments although its effectiveness is in question. To stop Chaebols becoming huge, the state regulated them by applying fair economic activity rule. 'Big Deal' was implemented in this sense to induce business specification. Venture firms were promoted to diversify sizes of firms (KIM I.Y., 2008). These remaining features of DS can be seen as reuse of DS policies in the emergency when needs maximized efficiency. The truth is whether the state intended it or not, the state has recognized that neoliberal policies of IMF instruction were not enough and DS policies proven effective from the experiences were needed. The Korean state, when there is economic downturn, or even crisis, has revived DS policies. This also implies that there have always been attempts and opportunities of revival of DS.

3.5.3 In which way DS has to change its form?

The discussion on how the DS has to be reconfigured has to be comprehensive. Recent mainstream's definition of development is more of a human development comparing to that of

old definition as productive structure change. Development without productionist view has to be avoided. Chang (2010) argues that MDG²⁴ by UNDP lacks the point of productive structure change and even calls it as anti-developmental. This ends up requiring developing countries to play passive role of the state, not as an active generator of its own development. Especially its last goal presents severe problem teaching developing countries what to do in a wrong way. This goal implicitly tells developing countries to specialize what they are good at and export it. Trade liberalization left no room for industrial and trade policies in developing countries.

When looking at the other way around, development without humanistic view also has to be avoided. Human development is no subject to discuss. Humanity always has to pursue it. Especially exemplary DS countries were authoritarian state by suppressing labour forces and anti democratic political decision makings. Learning from the past, this history cannot be repeated. In conclusion, there has to find the way to combine both productionist view and human development view. Neither traditional productionist way of development nor current mainstream human development is to ignore each other (CHANG, 2010).

3.5.3.1 Adapting to the changed circumstances

Trade liberalization pressure by global organizations causes hardship to have trade and industrial policies in developing countries. 159 countries have joined to WTO and as of 2007, 96.4 percent of global trade has been done through WTO member countries. Member countries are obliged to act upon non-discrimination, reciprocity, transparency, safety valves and binding and enforceable commitments to WTO. By dispute settlement, WTO imposes penalties. This hampers the countries imposing tariffs and non-tariff barriers such as quotas and subsidies.

However, there are still room for industrial policies. Even under GATT, the DS countries managed to have protectionist policies (CHANG, 2010). Of course under WTO it became more difficult since it is stronger and have permanent framework. But safety valves left room for protectionist measures. Especially for developing countries, regional free trade

²⁴ MDG includes eradication of extreme poverty and hunger, achieving primary education, promoting gender equality, improving maternal health, combating diseases, ensuring environmental sustainability and developing global partnership for development.

areas and customs unions, MFN principle allows preferential treatment. Three types of provision ensures it:

- a) articles allowing for the use of trade measures to attain non-economic objectives
- b) articles aimed at ensuring "fair competition"; members must not use environmental protection measures as a means of disguising protectionist policies
- c) provisions permitting intervention in trade for economic reasons

3.5.3.2 Industrial policy

Industrial policy has been key factor of DS. It is not too much to emphasize the importance of having industry in nation's economic scene. As Johnson (1994) pointed out, the necessity to have industry in its own territory is essential. To continuously generate employment, industry is to be maintained in its territory. Emergence of China as world's factory in manufacturing is a great challenge for newly industrializing countries.

Mainstream economists say that a country does not necessarily have to have mature manufacture industry to grow. On the other hand, the only country that manages to grow in this form is India. However, when looking very carefully in service sector of India, service sector in India is with high technology such as IT, outsourcing from the developed countries that grew in special circumstances as being colonized by England. All advanced countries now have larger share of third industry. However, when looking into these sectors, the high relevance with manufacturing industry could be observed. Thus, the growth without manufacturing sector seems to be illusion.

Amsden (1989) pointed out that Korea is moving toward from catching-up stage through learning and imitation to keeping-up and upgrading stage through innovation and creation. So the reconfigured DS demands distinctive and different industrial policy from the past one. Weiss (1998) asserts that the state has to select new growth engine and promote the selected infant industry. At the same time, it attracts long term and continuous investment in mature industry. For an industry that lost the leadership in strategic industrial sector, the state reinforces the cooperation between the related capital and the state to regain its position as a leader. The state also carries out restructuring smoothly in order to clean up declining industries.

With its major industry as electronics, semi-conductor, petro-chemistry, shipbuilding

and automotive, Korea is now considered as technologically advanced country. The new strategy, introducing new industrial sector to become engine of growth is new assignment for Korean state. Amsden (1995) says after undergoing industrialization based on manufacturing industry, in advanced industries, the importance of knowledge and organizational capacity rather than machinery got bigger. So the state's strategy has to be adjusted to investing in R&D, qualified human resources so that advanced informational technology and organizational skill could develop and improve.

Evans (1995) divided the role of the state into four; custodian, demiurge, midwife and husband, and incorporated these four categories into industry. Custodian refers to minimal state role as regulator. This role is more adequate for infant industries. Demiurge implies that the state to become direct producer not just in SOE but also in manufacturing sector which is beyond the private firms' capacity. Midwifery role means that the state becomes entrepreneur and promotes the entrance of firms in promising sectors. Thus the state reduces risks and uncertainty by protecting and supporting those firms. However, this midwifery role is not sufficient since there needs continuity in promotion and support. Thus the husbandry role is needed, especially in industries involving in advanced technology. In high tech industries, private firms have to be exposed to the global environment to achieve competitiveness and the state has to support this activity. In detail, the state could promote private firms to enter such as noticing them about incentives that they would receive in this sector. The state also can found the state-owned firms in research and development area.

In this sense, Korean state needs to act husbandry role. Demiurge is impossible since in high tech industry, the state does not have sufficient capacity to keep pace with global technology level in terms of competitiveness and productivity. As Evans (1995) mentioned, the more technologically challenging production the country faces, the more difficult the state maintains its autonomy since its dependence on transnational capital deepens. The state needs to do continuous support so that the firms can keep up with the global technological transformations. Korea's major industry involves high tech production such as electronics and automobiles. However, it still contains limitations because the core technology is often possessed by advanced countries such as German, the U.S. and Japan. There have been numerous attempts of the government to foster basic science such as establishing basic industry institutions; Institute for Basic Science in 2011.

From the past, upgrading industrial structure by selective industrial policies has been

core of DS. Thus the state has to find dynamic industrial sector to be promoted. President Park's creative economy reflects this. Creative economy seeks for dynamic industries to lead the further economic growth. There are five progress plan:

- a) expansion of R&D investment by the state;
- b) developing national strategic technology;
- c) enhance creativity of economic agents in short and long term;
- d) state's support for creating new industry;
- e) job creation.

It sets targets as increasing R&D's contribution ratio to national economy aiming at 40.0 percent from 2013 to 2017 compared to 35.4 percent from 1981 to 2010. Job creation for science and technology aimed at new 640,000 jobs until 2017. The industries under discussion are high tech industries and knowledge industry such as broadband of mobile, software and IT industry. The promotion of small and middle sized firms to stimulate creative industries is also one of the policies.

3.5.3.3 Financial system reform

Lessons from the Asian crisis have taught Korea of necessity of financial regulation. During the successful DS, Chaebols' credit allowance was subjected to the government's decision since all major commercial banks were state-owned. As Chun privatized banks, Chaebols no longer needed to conform to national development strategy nor try to read government's mind. They became associated with the credit supplier, which were banks and nonmonetary institutions. Debt and debt/equity ratios increased rapidly, which became one of the main reasons of crisis in 1997 (WADE; VENEROSO, 1998). Moreover, financial policies were used as principal instrument of DS. Disciplinary role of the state was possible due to financial policies that could threaten Chaebols by tightening credits.

Thus, financial system reform is needed to create new financial rule (AMSDEN, 1994). Of course it does not mean that the state has to re-own commercial banks and prohibit foreign capital coming in. But another lesson from crisis in 2008 proved how dangerous unregulated financial system is. Moreover, moral hazard of nonmonetary institutions that offers credits for debtors who do not have sufficient credit in banking sector exposes the economy to risky

situation. Regulations for nonmonetary institutions were eased by President Chun's term. However, it has to be revived. Moreover, the state has to be cautious about the entrance of foreign capital. Foreign exchange liberalization opened the space for capital flight.

3.5.3.4 New embedded autonomy

Despite the successful outcome, its industrialization contains limitations since it took a form of authoritarian and oppressed labour class. However, the oppression is not desirable to achieve sincere development and cannot go along with sustainable growth. Moreover, increases in wage and thus losing competitiveness of export goods in international market which was due to increasing labour right made the state seek for new strategy of growth, not using past one such as oppressing labour (KIM, 2010). In this sense, changes not only in industrial but also in class structure are required.

Labour class has been oppressed during the industrialization process by accepting low wages. Marxian economists say Cold War ideology has enabled government to give pressure on working class thus exploited excess on labour forces. This led accelerated accumulation of capital and consolidated power of Chaebols (KIM C.G., 2007). Low salary in the 1960s and the 1970s facilitated industries to gain foreign capital by prompting export. Gained capital was used for purchasing foreign technology and capital goods. In future, this played role as stepping stone for having high value added industry.

Not just equal footing of Chaebols and labour class, but also humanization of labour and welfare policy for labour are needed. Korean workers have longest working hours among OECD members but their wage is intermediate level. According to the report of Ministry of Finance and Planning Korean workers' average working hour per week is 44.6 hours, which is the highest level among OECD countries. Real annual wage is \$35,406, which is intermediate level. The labour productivity is 23th and the rate of marginal unit labour costs is 0.7 percent, which is low. Unemployment rate is 3.5 percent and long-term unemployment accounts for 6.8 percent, which is the lowest among OECD. However, this is biased because of high economically inactive population who is in blind spot of social security system.

As Chaebols grow, their voice on economic decision has gotten bigger. Different from the past, the state now could not impose disciplines on Chaebols. The mere objective of

Chaebols became profit maximization²⁵. To do profit maximization, the existing way of surpassing labour remained as an efficient method. And the intervention of the government that impedes capital movement became obstacle. Moreover, they have tendency to join hands with international capital and go far away from national interests. Mutual enforcement between the state and the Chaebols became difficult to continue after succeeding industrialization. During the industrialization process, social groups who are against national goal would emerge. This made the state impossible to maintain embedded autonomy, which is essential to DS (EVANS, 1995). The rise of new development goal as promoting the welfare of the people and maintaining sustainable growth demand more comprehensive embedded autonomy. The new way of mutual reinforcement between the state and its society has to be found.

The solution can be the introduction of new class is needed, which is the neglected class of people such as labour class and small and medium-sized businesses. Alienation of labour class is now impossible as being observed in pro democratic movements. Also by introducing labour class in embedded autonomy, the state can keep Chaebols in check and forming balanced relationship. Wade (1990) asserts that to confront the threats of greed global capital, labour class²⁶ is to be integrated into governance process in order to pursue ethnic and long term national goal. During the crisis of 1997, Griffin and Dymski (1997) says that the government should maintain investment promotion strategy and promote small and medium-sized firms which would eradicate the collusive links between politicians and businessmen.

To hold Chaebols in check by introducing labour class, it is necessary to ensure labour rights within the legal boundary. Legal Revision in labour law to enhance fundamental labour rights and strict compliance with labour law are prerequisite. From the 1980s, amendment of labour law has tended towards assuring flexibilization of labour market. Even after the democratization, the state's labour strategy against labour was admitting unit labour but restraining the emergence of labour union. This meant that the sphere of activity of labour was

²⁵ This does not mean that patriotism was a determinant on their business decision making in the past. However, the mechanism of describing industrialization as patriotic war and labour forces as warriors influenced firms' decision making conforming to the national strategy. Of course the profit maximization has always been the principal objectives of firms.

²⁶ Labour class of Korea has been a subject of suppression during the industrialization process. Even Korea has strong legislation of protecting labour force, its enforcement is weak compared to other developing countries like Brazil.

confined to within firms and stopped them to become political threat. The amendment of labour law in 1987 allowed formation of labour union, introduced union shop system, prohibited the governmental organization from obstructing union activity and guaranteed the right to strike. This showed progress in democratization of labour market. However, it still maintained prohibition on political activities by labour union, intervention by the third party and multiple trade unions. This authoritarian legacy finally disappeared with the amendment in 1997 after going on general strike and achieving great compromise between the Korea Tripartite Commission (PARK D., 2001; KU H.G., 2002).

In accordance with the economic situation and changed international market, the state recognized the necessity to reinforce domestic firms' competitiveness and this worked as allowing continuous suppression on labour. In military regime, guaranteeing fundamental labour rights took passive form in the amendment. The major movement has been made by a civilian government; founding Labour Relations Council. It opened the era of improvement on basic labour rights at the government level. Even law revision and its institutional frameworks have been completed; complying with the law is another issue. Improvement in working conditions such as shorter working hours²⁷, retirement grants system and allowance for night work (KOREA LABOR INSTITUTE, 2000).

3.5.3.5 Human Development

As the human development cannot be achieved automatically, the role of the state is essential. In Korea, there have been continuous discussions on why enhanced economic indicators do not guarantee better standard of living. Not just economic prosperity but also human development and sincere democracy put into question (WADE, 1990). The faithful belief on neoliberal thinking that enlarging the size of pie will also enlarge the size of piece that each one eats disappointed people (BOOZER; SURI; RANIS; STEWART, 2011). Especially after undergoing financial crisis in 1997, the absence of welfare oriented policy left Koreans suffer from unimproved quality of life principally from inequality. Economic growth is necessary condition to guarantee human development, but not a sufficient condition.

Evolution of Korea's welfare policies explains this phenomenon. From the 1960s to

²⁷ According to the data of OECD, Korea is ranked second in average annual hours actually worked per worker among OECD countries after Mexico.

the 1980s, as Korean state has been developmentalist and productionist thus economic growth has been principal objective, the welfare system of this period has maintained form of unofficially guaranteeing welfare of the people. After the Asian crisis of 1997, in President Kim's term, the welfare system assorted systematic, institutional and legal frame. However, the passive view on welfare policy that minimalist who considers social welfare as a cost has continued to be central feature. Poverty and inequality still seem to be prevalent even it has been ten years after systemization of welfare policy (SEO, 2011).

Especially when comparing Korea with Latin American countries, inequality issue seems to be no problem in Korea. Korea is usually considered as an exemplary of poverty elimination only by product of economic growth. The main justification of this statement is decline in absolute poverty. Until the 1950s, most people had lived in extreme poverty. Around 60 percent to 70 percent of the population lived with extreme poverty in the middle of the 1960s. After undergoing colonial period, independence from Japan and Korean War generated the extreme poverty to the whole population. It started to be improved and declined to 3.4 percent in the mid-1990s. These brought the well being of the population that can be shown in various indexes. The life expectancy of Koreans went up from 55 in 1962 to 72 in 1998. Infant mortality also improved from 7 percent in 1962 to 0.9 percent in 1998 (HENDERSON; HULME; PHILLIPS; KIM, 2002).

Korea has believed to be one of the most equal among developing countries (WORLD BANK, 1983). This belief biased as for the following reasons. Korean people's means of accumulating wealth is heavily dependent on real estate. Gini coefficient indicator usually excludes value of the real estate owned, rents, capital gains and interest payments. Moreover, the price of the real estate increases rapidly compared to that of wage. Also it is not negligible that higher income one receives more real estate he owns (AMSDEN, 1989). According to National Tax Service and Korea Exchange, the minor under 19 years old who holds stock accounted for 1.8 percent of total stockholder, which is 1.4 percent of total amount of market price (LEE C.G., 2013).

Moreover, when we start to look at relative poverty, which is inequality issue, Korea has long way to go. As more and more economic growth has been achieved, development for Koreans now does not just mean mere economic growth but also improving life's standard. This has been more demanding than the old one. First, the wealth that has been accumulated from the earlier stage of developmental state was not spread into whole population evenly.

When comparing to those developing countries, it may have better indices, however, these better indices are not even close to European welfare states. Korea's Gini coefficient of inequality is 0.306. Comparing to average 0.315 of OECD countries, Korea has slightly better equality index. However, decile dispersion ratio is 4.7 ranking the 24th among OECD countries, which is 4.2 times higher than OECD average. Relative poverty points at 14.4 percent ranking the 9th in 2006. Even if general level of poverty got better, some groups are suffering from the relative poverty. Those are woman, children and the elderly and disabled population. The poverty rate of older people is high. Korea is one of the few country that population of older people is poorer than the rest of the population. In 2000, the poverty risk of age between 66 and 74 was three times more than the average population. Especially older people more than 75 took 3.3 times more than the average. On the contrary, in the 23 OECD countries, the poverty risk of age between 66 and 74 was equal to the average of nation or even lower. Population more than 75years old was 1.5times riskier than the average. Moreover, in the OECD countries, the poverty rate of older age diminished substantially.

There have been attempts to reflect equality, democracy and human development issue in policy decisions. From President Kim's government, which was from the liberal and progressive party, its reflection became more serious. Kim (2010) names this period from 2003 to 2007 as quasi welfare state. However, recently the demands for equality, substantive democracy and human development call for fundamental solutions. The reason for this phenomenon is due to concentration of economic power. During the 40 years of industrialization process, Chaebols have accumulated wealth and wielded strong influences on the society. On the other hand, the labour class has been excluded from the capital and inequitable distribution aggravates. This imbalance between the capital and labour and unfair transaction between Chaebols and small and medium-sized firms are intensifying and polarization between classes deepens.

Economic Democracy²⁸ reflects the spirit of the age and discussions on it is spread to the political world, labour world, economic world and civil society organizations. Kim M.B. (2012), Kim B.H. (2014), Yoo (2013), Lee C.G. (2013) and Ransom and Baird (2010)

²⁸ The term economic democracy was introduced by Webb couple as industrial democracy, which was specifically focused on labour union activity in industrial site (FIELD, 1963). This meaning expanded to the state, however, still is vague. In German, as economic democracy, there was joint decision making system between labour and entrepreneur. In Japan, reform on Zaibatsu, land and labour are called economic democracy.

²⁹emphasized the importance of ensuring economic democracy in developmental process.

Despotism by Chaebols on small and medium-sized businesses made it impossible to achieve win-win growth. Chaebols' squeezing subcontractors and small and medium-sized firms, violation of consumer rights, weakening labour's three primary rights, neglecting rights to live non-regular workers are aggravating social complications (LEE C.G., 2013). This surfaced with Namyang Dairy Product Company affair. The company forcibly sold residual products to franchise retail stores on the threat of destructing contract. The intention of the company was increasing its sale but left the retail stores under huge pressure and loss. The franchise retail stores have no choice but to endure despotism and unfair transaction due to its contractual relationship and livelihood. Numerous cases on despotism and unfair transaction by Chaebols were detected such as automobile dealership, department store and bakery running by Chaebols. The owner of the franchise retail shop of Baesangmyun Brewery Company, one of the major brewery companies in Korea committed suicide. After the fact that Chaebols have been creating revenues by surpassing subcontractors came out, the retail stores formed a cartel and fought against high-handedness of Chaebols. A nationwide boycott for the involved products was staged by consumers (HANKYOREH, 2013). Moreover, to achieve win-win strategy, unfair transaction between Chaebols and small and medium-sized businesses has to be rejected. Their transactions have had practices of lowering unit price of delivery goods excessively. This way Chaebols could maximize revenues and small and medium-sized businesses have no choice but to accept this immoderately decreased price to maintain contractual relationship (LEE C.G., 2013).

Polarization problem between Chaebols and small and medium-sized businesses is also being magnified.³⁰ The concentration of economic power by small number of Chaebols would not lead to sustainable growth. According to Research institution of economic reform and FnGuide, the ten largest Chaebols account for 52.83 percent of stock market of Korea in January of 2012 and their market capitalization has been increased continuously. National Commission for Corporate Partnership came up with the cooperative profit sharing plan. It is necessary to improve corporate governance but at the same time, promotion of small and

²⁹ They predicted the direction of progress of economic democracy would guarantee the rights of the poor, rather than the rich, value the production rather than trade and value the labour rather than finance.

³⁰ Chaebols entered in small businesses such as bakeries and coffee shops and took away means of living of small business owners.

medium-sized firm is also important. One of the solutions can be increase in National R&D budget for small and medium-sized firms to enhance technological competitiveness (LEE C.G., 2013).

President Park's principal commitment; Democratization of economy means based on economic freedom of agents, the market works with efficiency and the society attains economic equity within the limits of guaranteeing dynamicity of economy. The government's role is to create a level playing field to promote fair competition and equal opportunity to participate. It accompanies institutional attempt that relieves the unequal distribution of wealth by making use of law. These policies include bridging the gap between the rich and the poor, resolving polarization and creating jobs (KIM B.H. 2014).

As one of these attempts for economic democratization, promoting small and medium sized business was emphasized. The main contributor of economic growth has been Chaebols. In the past, Chaebols commanded certain privileges that are not accessible to small business. According to the Constitution of Korea, the second clause of Article 119 says State can regulate and control its economy to achieve democratization of economy through balanced national economic growth, adequate income distribution, prevention on market control and abusing economic power, harmony between economic agents. The article assures State's role as relieving concentration of wealth of Chaebols.

There are discussions on how to achieve economic democracy. Firstly, civic groups assert institutional Chaebols regulation. Restriction on Chaebols' business practices and protection on small merchant have to be implemented through enactment of special law. Chaebols' collusive behaviour should be regulated to protect consumers. Tax reform for Chaebols would ease the concentration since most of preferential tax has been accessible to Chaebols. Unfair lowering the unit price of delivery products can be erased by amendment of subcontract law through the introduction of linkage system between unit price of delivery products and raw material prices. In labour sector, shorter working hours would generate employment. Restriction on hiring un-regular worker and abolishing discrimination would bring stabilization of employment (LEE C.G., 2013).

Democracy is one thing that cannot be renounced.³¹ It is undeniable that Korean DS

³¹ There are four lines of thoughts on correlation between democracy and economic development. First, economic growth leads to democracy. It can be `development first and democracy later` by Lipset. Second thought is emphasizing importance of development in shaping in democracy. As long as there is sustained

has been authoritarian state. For this reason, there are economists who say the prerequisite for successful DS is having authoritarian state. However, this is not true because authoritarian states can be found in many developing countries. And also, their strong state-led policies are not a unique feature of DS. Many Latin American countries had military government and they had strong state as well. Korea's authoritarian state used policies of oppressing labour by violating basic labour rights and restraining wage increase. This caused massive demonstrations of Koreans and after six years of 'Declaration of Democratic Transition of Power', Korea has achieved institutional democracy, rather than substantive. In 1993, the civilian government by Kim Young Sam was elected. From 2003 to 2007, which Kim (2010) names as quasi welfare state, there was an attempt to be substantive democracy such as pursuing participatory democracy and decentralization. So the tendency of democratization has always been present and it becomes more sophisticated in accordance with maturity of the society.

economic development, poor country can have democracy. Third thought is an alternative view by Huntington. It explains development of democracy from the perspective of process.' Outcome of economic development leads to political decay and then the unstable political system in the early stage of the process of transition. In the later stage, authoritarian moves toward democracy through institutionalization. Last view is that 'development does not lead to democracy, but supports authoritarian' (KIM, 2010)

4 CONCLUSÃO

Na década de 1960, a Coreia era um país que recentemente havia se tornado independente do Japão. A guerra da Coreia destruiu infraestruturas físicas e sociais, e tornou instável o ambiente político. Setenta por cento do orçamento da defesa nacional era advindo de ajuda externa; a taxa de desemprego era de trinta e cinco por cento, e o PIB *per capita* era de apenas US\$ 80. Em vez de minimizar o papel das instituições no desenvolvimento da Coreia, algum recorrente em muitas análises do *mainstream* da economia, o presente trabalho trouxe evidências de que não se pode negligenciar a importância do Estado no processo de desenvolvimento desencadeado a partir deste momento histórico. Durante o seu mandato, o presidente Park Junghee (1963-1979) abriu o período ED de sucesso com políticas econômicas, como as de modernização e industrialização (JUNG, 2011). O seu sucesso ficou conhecido como um milagre.

Apesar do surpreendente sucesso do país, a demanda dos coreanos para alcançar mais crescimento ainda é forte, pois a Coreia ainda não convergiu perfeitamente com os níveis de prosperidade material dos países avançados, particularmente quando se toma a renda *per capita* como variável-síntese. Com a emergência da China enquanto potência econômica regional e global, renovou-se o debate em torno da capacidade nacional de manter níveis elevados e crescentes de dinamismo econômico e capacidade competitiva. Além disso, parece que a definição de desenvolvimento não corresponde mais apenas ao crescimento econômico. As melhorias nos indicadores econômicos não necessariamente levam ao desenvolvimento humano. O desejo de se tornar um país nos moldes do *welfare state* europeu também se reflete nas decisões políticas.

Esta dissertação identificou três grandes eixos de discussões sobre o papel do Estado na Coreia contemporânea, quais sejam:

- a) o Estado regulador;
- b) o Estado corporativo, responsável pela concertação social e pela indução de um modelo corporativo competitivo; e
- c) o ED.

O Estado regulador age de acordo com o mercado livre e o Estado mínimo, mas requer que o Estado projete dispositivos sofisticados para a regulação e os opere para induzir a

concorrência leal no mercado (YANG J.J., 2005). A concertação social e o modelo corporativista competitivo são características dos países europeus, que colocam o trabalho, o capital e o Estado em posições iguais em termo de poder político. O Estado é um mediador dos agentes econômicos. No entanto, essas duas abordagens contêm limitações na obtenção de crescimento econômico. O simples papel do Estado como *rule maker* não iria promover a dinâmica da economia. E o papel do Estado como mediador para resultar em cooperação entre o trabalho e o capital é limitado no sentido de alcançar um maior desenvolvimento.

Assim, a alternativa mais forte é o ED. Ele não é um assunto a ser descartado, mas um assunto para ser bem sucedido e reconfigurado (WEISS, 1998; SHIN; CHANG, 2003; CHANG, 1999). Com base no principal mecanismo do ED passado, o ED reconfigurado tem de ser enxertado em conjunto com o ED passado. Para isso, é necessário olhar para o passado, analisando como ele surgiu, evoluiu e desapareceu e enxergar a possibilidade do seu renascimento.

O ED coreano tem sua origem na década de 1950, quando obras básicas institucionais, como a reforma agrária, a reorganização do quadro jurídico, a formação e reorganização da burocracia e das agências de planejamento econômico, dentre outros marcos, se iniciaram e levaram ao sucesso do ED nas décadas subsequentes. No final dos anos 1950, a economia passou por uma recessão, a qual foi uma crise de industrialização por substituição de importações.

É claro que a década de 1950 teve base institucional para levar o país a alcançar o crescimento na década de 1960, mas ela contém limitações, tais como a autonomia incompleta do Estado. Mesmo alcançando a relação refém mútuo entre o capital e o Estado, este período não conseguiu ter “autonomia enraizada”³² por falta do princípio baseado em desempenho. A década 1960 pode ser vista como o período que superou essas limitações.

A organização burocrática pelas elites liderou o mercado. Coube ao ED criar mercados e intervir ativamente visando à prosperidade econômica de longo prazo. Para alcançar o desenvolvimento econômico, o governo distribuiu seus recursos estrategicamente, orientou e regulou o setor privado por meio de vários instrumentos de política econômica. Capacidade de Estado e organização burocrática coesos foram fortemente presentes e uma estratégia orientada para a exportação foi buscada. Quando se trata da autonomia do Estado, a Coreia

³² A palavra original em inglês é *embedded autonomy* pelo Evans (1995). A explicação do “autonomia enraizada” está na página 18 dessa dissertação.

não tinha forças sociais poderosas contra a burocracia nacional. O sistema de monitoramento do desempenho e “*the carrot and the stick approach*” pelo Estado forte permitiram a emergência da “autonomia enraizada”.

Com base em estudos empíricos de caso da Coreia deste período, junto com outros países do leste asiático, como Taiwan, foi possível criar o conjunto de reflexões do que veio a ser denominado de teoria do estado desenvolvimentista. As características essenciais do ED são a existência de agência piloto, a estratégia nacional para o plano de crescimento econômico a longo prazo, a capacidade do Estado que vem de burocratas qualificados, coesão da organização burocrática, políticas de industrialização seletivas e “autonomia enraizada”. Estas características são um conceito abrangente e integrado. Para poder dizer que um país possui um ED, todas as características mencionadas acima têm de estar presentes. Caso contrário, ele se torna um ED parcial e até mesmo um estado predatório.

No entanto, o ED começou a desaparecer do cenário econômico na Coreia. Externamente, com a pressão neoliberal dos países desenvolvidos, tornou-se difícil manter o ED. Internamente, como o ED coreano contém a característica do Estado autoritário, ele começou a se enfraquecer com a ascensão da democracia. A partir da década de 1980, houve movimentos democráticos. Mudanças na estrutura de classes também contribuíram para seu enfraquecimento. Como os grandes conglomerados econômicos, os *chaebols*, cresceram, eles começaram a pressionar o Estado para promover a liberalização econômica e financeira. O Estado não só deixou de ser necessário para eles, como se tornou uma barreira para as suas expansões. A força crescente da classe alta e sua demanda por consumo de bens de luxo também se fez cada vez mais presente. As ideologias dos burocratas mudaram e eles se tornaram neoliberais, por influência dos funcionários públicos que estudaram nos EUA (CHANG, 2000; KANG, 2002; MOON; MO, 2000; KU H.W., 2009).

O Estado acabou com a estratégia nacional e a agência piloto ³³no mandato do presidente Kim Young Sam. A “autonomia enraizada” desmoronou devido ao crescente poder dos *chaebols*. A coesão da burocracia chegou ao fim com os procedimentos democráticos e entrada de vários interesses na questão política. A política industrial foi quase extinta em meados de 1990, e a liberalização financeira iniciou a partir de 1991 com a abertura da conta

³³ A palavra original em inglês é *pilot agency*. Agência piloto que é responsável por políticas industriais orienta os agentes econômicos para o processo de desenvolvimento, empregando instrumentos políticos (BEESON, 2003).

de capital para os estrangeiros (CHANG, 2006).

Portanto, em uma primeira aproximação, parece difícil se vislumbrar o renascimento do ED, pois as circunstâncias ao redor da economia coreana são diferentes do passado. Assim, a Coreia está lutando para encontrar uma nova estratégia para se desenvolver. Além disso, a questão do desenvolvimento é mais complicada para os *países quase desenvolvidos* como a Coreia. No entanto, quando se olha para o ED passado, e as circunstâncias de atraso material e instabilidade política que o germinaram, torna-se possível especular em torno da possibilidade de sua revitalização. Por isso, esta dissertação sugere ser importante **aprender com o passado** para, à luz do debate teórico recente acerca do que seria o ED do século XXI, explorar caminhos para uma eventual reconfiguração do ED.

Neste sentido, faz-se necessária uma análise crítica da validade teórica do ED. O ED frequentemente recebe críticas sobre sua relevância teórica, porque nasceu de estudos empíricos sobre os países do Leste Asiático. Assim, devido à especificidade cultural e histórica desses países, o ED parecia ser inaplicável aos demais países em desenvolvimento. Ademais, as circunstâncias históricas específicas que permitiram sua emergência não seriam passíveis de reprodução contemporânea, nem mesmo nos países do Leste Asiático, impedindo um eventual renascimento do ED.

No entanto, pode-se verificar neste trabalho que o ED pode ser explicado sem incluir aquelas especificidades. A existência de agência piloto, a estratégia nacional para o plano de crescimento econômico a longo prazo, a capacidade do Estado que vem de burocratas qualificados, a coesão da organização burocrática, as políticas de industrialização seletivas e a *embedded autonomy* são características que podem surgir em todos os outros países e podem ser repetidas sempre que o estado tiver a intenção de fazê-lo.

Especialmente na Coreia, onde há *path dependency* de instituições do ED, o renascimento parece mais fácil. O legado institucional continua na política industrial do Presidente Kim Dae-Jung, ao promover semicondutores, tecnologias de informação e comunicação móvel. O 'Big Deal' sugere que o Estado, em um contexto de crise econômica, pode voltar a adotar políticas típicas do ED.

A tarefa restante é descobrir como fazer o ED reconfigurado. O princípio básico é que as características essenciais mencionadas acima têm de estar presentes. A política industrial precisa ser resgatada. Conforme Johnson (1994) apontou, a necessidade de ter a indústria em seu próprio território é essencial. Amsden (1989) mostrou que a Coreia está se movendo na

direção do *catching-up* através da aprendizagem e imitação para *keeping-up* e *upgrading* através da inovação e da criação. A economia criativa da Presidenta Park Geun-hye procura as indústrias dinâmicas para liderar a continuação do crescimento econômico através do investimento em P&D e inovação pelos agentes econômicos, especialmente empresas de pequeno e médio porte.

A reforma do sistema financeiro é necessária para criar um novo regulamento financeiro (AMSDEN, 1994). Lições da crise em 1997 e 2008 provaram o quão perigoso é a manutenção de um sistema financeiro desregulado. A “autonomia enraizada” pode ser alcançada através da introdução de classe de trabalho. O Estado pode buscar reequilibrar as relações de poder com os *chaebols*. Wade (1990) afirma que, para enfrentar as ameaças da ganância do capital global, a classe trabalhadora deve ser integrada no processo de governança, a fim de buscar meta nacional ética e de longo prazo. O Estado pode fortalecer a classe trabalhadora, garantindo a sua proteção legal.

O ED reconfigurado também tem que incluir a questão do desenvolvimento humano. Em primeiro lugar, porque tem que refletir a demanda dos coreanos, e em segundo lugar porque o objetivo final da humanidade tem de ser enriquecer a vida das pessoas, e não uma prosperidade econômica por si mesma (SEN, 1999). Tem havido tentativas para refletir a igualdade, a democracia e a questão do desenvolvimento humano nas decisões políticas. Em nossa revisão histórica, reforçou-se a percepção de que a assimetria de poder entre os grandes conglomerados e as empresas de menor porte, ou entre aqueles e a classe trabalhadora impossibilitou o alcance de um padrão de crescimento mais virtuoso, do tipo *win-win*. A concentração de poder econômico emergiu como um problema também. Assim, o conceito de democracia econômica foi introduzido pelo governo Park Geun-hye (2013-atual) refletindo essas necessidades.

A democracia econômica é um assunto recente e os eventuais resultados da busca de sua promoção ainda não apareceram de forma clara. No entanto, vale a pena olhar para ela, uma vez que estas grandes mudanças na visão de desenvolvimento irão continuar e é um assunto que tem que ser incorporado nas discussões econômicas. A estratégia de desenvolvimento que levou a Coreia para o nível atual deve ser mantida e revista de acordo com as mudanças internas e externas. E a sua viabilidade, de acordo com a pesquisa acadêmica, tem que ser discutida de forma contínua.

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