The Transformation of the East Asian States: From the Developmental State to the Market-Oriented State

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Abstract: This article reviews the main characteristics of state-led development in East Asia and follows this up with an analysis of the increasing pressures on developmental states. The state has had to confront both internal economic constraints and external pressures, such as political liberalization and economic globalization, and the prospects for sustaining long-term development plans within nation-states seem even less promising in a deregulated global economy. The East Asian states have recognized that their national systems of economic development have declined, and that their policy initiative has therefore become less effective. They have in fact witnessed a transition from the developmental state to the postdevelopmental state, although the conventional statist assumptions ignore this transition. As other governments pursued market-conforming economic policies, the postdevelopmental market-oriented states established rules governing the market economy and abolishing government regulation.

Key words: developmental state, postdevelopmental state, flexible state, market-oriented state, globalization, financial crisis, Korea, East Asia

Ⅰ. Introduction

Many social scientists argue that East Asia's economic success has been propelled by the predominant role of the developmental state (Amsden, 1989; Wade, 1990; Haggard, 1999). It is widely believed that the East Asian states have been able to intervene in business activities and to practice macroeconomic management. It has been argued, however, that the neoliberal influences since the 1980s have resulted in structural changes in the East Asian states in the advent of a globalizing world economy. It has become more difficult for developmental states to manage their domestic economies in the face of free trade, the international division of labor, and the operation of global financial markets.

In recent years, the theoretical debates have come to focus on the transformative role of the East Asian states in the world economy. Some state-centered analysts have shifted their focus away from the "state autonomy" view that all states are autonomous from the economy and have the capacity to impose their own economic policies. The remarkable change in the conventional wisdom has shifted the emphasis away from state capacity to state-business cooperation, from "state autonomy" to "embedded autonomy" (Evans, 1995). Furthermore, some argue that the decline of the developmental state seems inevitable after the financial crisis that occurred in 1997 (Wade, 2003; Chang and Shin, 2003). Thus, there is a need to explain how the developmental state declined in relation to the business conglomerates. It is also important to examine the impact of globalization on the developmental state, the changing role of the state, and the structural transformation of the government-business relations.

Let us begin with an account of a developmental state in East Asia that undertook substantial development efforts with effective governmental institutions in the process of industrial transformation. This will be followed by a critical analysis of the theoretical debates concerning the relations of the state and society, from the developmental states to the relatively autonomous states, and from embedded autonomy to social networks. Unlike the conventional statist assumptions, this article presents theories of the fundamental change in state-business relations and of the recent emergence of the post-developmental state in East Asia. This article also discusses the rise and decline of various forms of developmental states in the face of economic crisis and globalization. Finally, the transformation of the developmental states (which has coincided with globalization), the neoliberal attacks on Keynesian state intervention, and the radical structural changes that have occurred in the global economy will also be discussed herein.

In this article, we will also examine the institutional change that has occurred in the Korean government and business conglomerates. The Korean Stock Exchange provided the primary materials on the investor type and market value. These data focus on the transformation of corporate governance, which constitutes and collaborates with the broader networks. This article also made use of various company reports, personal interviews, and journalistic reports to examine the changing nature of the Korean government and business conglomerates. We shall begin with a theoretical analysis of the role of the developmental state in the process of economic development.

Ⅱ. How Did Developmental States Attain Success?

Many social scientists who have sought to answer fundamental questions about the East Asian states have been involved in the argument over which between market mechanism and state intervention is the main cause of economic development.[1] It is now widely acknowledged that state intervention was an indispensable condition for achieving industrial transformation in East Asia (World Bank, 1993).

The idea of the developmental state is closely associated with Chalmers Johnson (1982) and his famous work, *MITI and the Japanese Miracle*. In his book, Johnson showed the basic mechanism of the Japanese political economy, developing the concept of the "capitalist developmental state" from an institutional analysis of the government bureaucracy. According to Johnson, the primary goal of the developmental state is economic development in terms of growth, productivity, and competitiveness. While the developmental state advocates private property and the market, it consistently attempts to guide the market through an elite economic bureaucracy. As a result, the developmental state engages with various institutions that allow it to consult and coordinate with the private-business sector, and these policy consultations are an integral part of the state's policy formulation and implementation.[2] Johnson further argued that Japan, Korea, and Taiwan are "developmental states" and have market economies in which the state performs a highly interventionist role. Amsden (1989) and Wade (1990) advanced this argument in their studies

1. The Confucian culture has been considered a major obstacle to economic development, as claimed by Weber in his thesis on Confucian China, but some scholars have identified culture as one of the most important causes of the East Asian economic success (Berger and Hsiao, 1988). These cultural approaches, however, are theoretically limited and rely heavily on examinations of how the Confucian principles effect a high degree of social control, harmony, or trust in these societies (Hamilton and Biggart, 1998).
2. Johnson (1982) argued that while state bureaucrats "rule" in Japan, politicians "reign" therein. This separation of "ruling" and "reigning" goes with a "soft authoritarianism" when it comes to addressing the needs of economic development, and with a virtual monopoly of political power in a single political party or institution over a long time.

on the role of the state in Korea and Taiwan.

Alice Amsden (1989) pointed out four characteristics of the Korean economy: (1) the central role of state intervention in markets; (2) the importance of government "discipline" over private firms in guaranteeing efficiency; (3) the industrial capabilities of large and diversified business groups; and (4) the centrality of technological learning for later industrializers. The Korean state has acted as an entrepreneur, banker, and architect of the industrial structure. While Korea has a relatively small proportion of foreign direct investments in the economy, the Korean state controls most of the foreign capital and public and commercial loans in the country. The economic bureaucracy plays a very important role in the formulation of industrial policies as they have financial control over the domestic and foreign capital. Thus, the Korean state is referred to as "Korea Inc." or the "senior partner," and its economic system as "state-led" capitalism or "guided" capitalism.

Drawing on the concept of the developmental state, Robert Wade (1990) proposes a "governed-market theory," which builds on both the idea of the developmental state and on the understanding of traditional development economics. According to Wade, the East Asian success is due in large measure to a combination of: (1) a higher level of investment, and that with a different composition, compared to that in less dynamic industrial sectors; (2) long-range government action, such as support, discipline, and guidance, in relation to strategic industrial policies; and (3) the exposure of many industries to international competition in foreign markets. These policies enabled the government to "guide or govern" the market processes of resource allocation so as to produce production and investment outcomes that are different from those that would have occurred with either free-market or simulated free-market policies (Wade, 1990: 26-27). The key economic role played by the state in the East Asian success story and, more recently, by the government agencies of Singapore, Thailand, and Malaysia, in terms of fostering and supporting market activity, for instance, is now accepted and stands as a fact of economic history.[3]

In general, a developmental state is a state that sets out to promote national development by means of institutionalized arrangements of policy intervention guided by some kind of plan or strategic goal, and that plays a central role in the process of development (Evans, 1995; Weiss and Hobson, 1995; Woo-Cumings, 1999). Historically, the "developmental state" refers to a specific model of the state that has evolved, particularly but not exclusively, in the postwar and postcolonial era, along with the very idea of "development" itself. Of course, the idea that the market will generate a degree of insecurity that will eventually threaten the very foundation of social life is a classical one, associated with Marx and Polanyi. In particular, Polanyi (1944) paved the way for the viewing of the state as a set of institutions that serves to change the play of market forces.

Following the Polanyi tradition, many institutionalists have argued that the state is the most important actor in carrying out economic growth in the latecomers or late developers. In the early period of development studies, Gerschenkron (1962) convincingly demonstrated that late development has been consistently associated with a high level of state intervention. He argued that late developers such as Germany and Russia, which developed only in the nineteenth century, required strong state intervention to "catch up" with the early developers, such as Britain. As Chang (2000) pointed out, even the U.K. and the U.S., seeming paragons of the free market and latter-day champions of the neo-

3. Gordon White (1993) argues that the developmental states in East Asia are either of two different forms: state socialist (China, North Korea, and Vietnam) and state capitalist (Japan, South Korea, and Taiwan).

liberal model, manifested significant state assistance in their initial industrializing process. Many institutionalists in social science have been closely related with contemporary debates on the "relatively autonomous" state.

Ⅲ. Two Competing Views on the Developmental State

Since the late 1970s, a number of social scientists have paid attention to centralized state power in capitalist societies (Skocpol, 1979; Giddens, 1985; Mann, 1986, 1993; Weiss and Hobson, 1995). This new wave of "state autonomy" theories is influenced by both the elite theory and by the neo-Marxists' emphasis on the relative autonomy of the capitalist state. Skocpol argues that the state and the entire dominant class have a common stake in preserving the existing mode of production, but that the state can be potentially autonomous from the interests of the capitalist class and the existing mode of production.[4] Thus, the state is separated from its society and is controlled by only a limited number of insulated state elites.

Peter Evans, in collaboration with other scholars, succeeded to "bring the state back" into the study of capitalist development (Evans et al., 1985). They argue that capitalism has imposed limits on states, yet state elites possess some autonomy. Thus, they suggest that a more active, more relatively autonomous state is an essential component of the development of dependent countries. The "state autonomy" theorists have attempted to explain successful economic performance, focusing on national economic de-

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4. Influenced by the German tradition of Max Weber, Skocpol (1979: 27, 29-30) defines the state as "a set of administrative, policing, and military organizations headed and more or less well coordinated by an executive authority … and an autonomous structure—a structure with a logic and interests of its own."

velopment led by the active role of the government: I shall call this "state autonomy approach." They argue that a high degree of state intervention to overcome the disadvantages of underdevelopment is an important element of rapid economic development, as Amsden and Wade implied in the works discussed above. This view attributes East Asia's rapid economic growth to the strong state's role in the economy, focusing on the industrial and financial policies carried out by the government.

Moreover, in the Korean case, the statist perspective highlights the important role of the government in the establishment of large business conglomerates under the Park regime in the early 1960s. Many statist theorists argue that Korea was never a paragon of the free-market ideology through capitalist industrialization (Amsden, 1989; Wade, 1990; E. Kim, 1997; Weiss, 2003). They claim that the picture of a bureaucratic state collaborating with business conglomerates in the implementation of development plans confirms the "developmental state theory," and that the state bureaucrats attempt to harness the capability of private corporations by supporting them and inducing them to invest in prioritized industrial sectors.

The statist perspective suggests that developing states should negotiate with foreign capital to reduce their monopoly rents and to increase the benefits to their economies. In this sense, Amsden (1989: 4-23) argues that Korea's economic growth is a classic example of "late-late industrialization," and that Korea itself embodies all the elements that can be found in other developing countries and in the developed countries (Wade, 1990; Haggard, 1990; Weiss and Hobson, 1995; Xia, 2000). These state-centered theories are closely connected with a political logic for forms of economic nationalism as well as greater state intervention in the domestic economy. The state-centered analysts also argue that globalization can enable as well as constrain, and they seek to specify the institutional conditions that sharpen or neutralize the pressures of globalization (Weiss, 2003).

The state-centered arguments have been seriously criticized, however, on the following grounds. The "state autonomy approach" overlooks the institutional diversity of the state by characterizing the state as an internally cohesive actor. It treats the state as an indivisible unit of analysis. The strong state, however, or even an authoritarian regime, cannot always insulate its state bureaucracy from social classes that are often in conflict with one another. In most cases, state bureaucrats are not autonomous actors; rather, they usually respond to the demands of the elite groups or, sometimes, to the protests of the lower classes. The state and society tend to share power in most developing and developed countries: states and societies are "mutually transforming" (Migdal et al., 1994: 293). A globally generalized pattern of state-society relations, however, may not exist. It seems more plausible to assume that the relationship between states and societies varies considerably over space and time.[5]

Some theoretical arguments that attempt to overcome the weakness of the "state autonomy approaches"—that states have autonomous power over society—have been put forward. The "internal organization" theory considers the state and the business conglomerates as constituting an internal organization that is hierarchical and that manages transactions through the administrative process (Williamson, 1985). As shown in the Korean case, the state bureaucrats and business leaders negotiate and coordinate their opinions and interests through intermediate organizations (Shin, 1991).[6]

The "social network" theory also focuses on the reality of a concrete set of social ties, including formal, informal, and organic

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5. See MacIntyre (1994); Weiss and Hobson (1995); Maxfield and Schneider (1997).
6. See Okimoto (1989) for Japan.

(family, kinship, and regional) networks. Thus, the state apparatuses "are embedded in a concrete set of social ties that binds the state to the society and that provides institutionalized channels for the continuing negotiation and renegotiation of goals and policies" (Evans, 1991: 12). In these models, the state-business relations are complemented by horizontal ties established through formal, informal, and organic networks.

On the other hand, reformulating the statist analyses, there have been new theoretical attempts to synthesize the state and the private economy by arguing that the state has the capability—what Michael Mann calls "infrastructural power"—to penetrate the society and implement its decisions (Mann, 1986, 1993): I shall call this the "state capability approach." The ability of the state to operate within a capitalist economy is related to its ability to cooperate with the domestic capitalists and to provide a social infrastructure of educational training and of class compromise that allows for flexibility in the face of changing patterns of international trade. Thus, many East Asian states are relatively and increasingly "despotically weak" but "infrastructurally very powerful" (Hall, 1986: 154-76).

An analysis of the "state capability approaches" and the "state autonomy approaches" would reveal that although the two are essentially different, they both emphasize the role of the state. Both approaches argue that development states come much closer to the ideal type of bureaucracy. The central bureaucracy of the developmental states has "highly selective meritocratic recruitment and long-term career rewards that create commitment and a sense of corporate coherence" (Evans, 1995: 30). The "state capability approaches," however, suggest that states are not always insulated from the society, which Weber argued that they ought to be. Rather, the state and the society are interconnected in "social ties" that are capable of bringing about collective action.[7]

Evans (1995: 12) argues that only the combination of connectedness and autonomy, which he calls "embedded autonomy," can make a state developmental. He has made an important contribution to the understanding of the different models of state intervention. By elaborating on the concept of the "strong state," Evans (1995: 44) asks about the kind of states and their effects rather than about the extent to which policy intervention by the state is involved in the process of economic development. Evans points out that there are three ideal types of states: developmental states (e.g., Japan, Korea, and Taiwan), predatory states (e.g., Zaire), and intermediate states (e.g., Brazil and India). Predatory states extract investable surplus while doing little to promote industrial transformation. On the contrary, developmental states foster long-term entrepreneurial plans among private corporations by increasing the incentives for them to make transformative investments.

Evans, however, did not effectively pursue a theory of the complex, macrostructural foundation of capitalist development in Polanyi's sense. He made little contribution to the understanding of how social networks emerged and were established, and what sustains them. In general, he did not explain the complex political dynamic of the "embedded autonomy" between the state elites and the social groups. Moreover, the statist analysts could not explain why state power over the society has gradually eroded with the expansion of social power in the current process of economic liberalization and globalization. As is well known, the nature and scope of the sovereign authority of contemporary nation-states are increasingly shrinking at the global level (Held, 1995; Strange, 1996; Wade, 2003; Weiss, 2003; Wong, 2004). Thus, the argument

7. Evans attempts to develop Granovetter's concept of "embeddedness," which focuses on actors and institutions, arguing for the existence of social ties (Granovetter, 1985).

needs to bring the state or bureaucracy into a more complex political system and global context (Moon and Prasad, 1994; Y. T. Kim, 1999; Kong, 2000).

Ⅳ. The Impact of Globalization on the East Asian States

In the mid- or late 1980s, the East Asian countries presented an increasingly alarming picture of crisis in developmental states. There was a break with the political consensus supporting a governed economy and state intervention, which characterized the rapid industrialization process. The changing environment of the global economy seriously limited the role of the state, and even the possibility of the state's involvement, in the national economic policy-making process. In some East Asian countries, particularly in Korea, the social groups that used to support the authoritarian state began to challenge the instrumental legitimacy of the developmental state. More importantly, state intervention was reduced, but at the same time, states sought to expand the scope and scale of market forces. Many state-owned industries were returned to the private business sector, and the national economy, in important respects, was subordinated to the logic of the global market. The crisis of the state and the consequent erosion of state power resulted in radical changes in the forms and functions of developmental states, raising new theoretical debates between the statist, globalist, and transformationist approaches.

First, the "statist approach" generally theorizes the changing role of the state in dualistic terms: that the world is becoming globalized at the level of economy and culture but that the nation-state is still the primary location of sovereignty and policy making (Hirst and Thompson, 1996; Boyer and Drache, 1996; Berger and Dore, 1996; Weiss, 2003). Weiss and Hobson (1995) contend that the ideas regarding the integration of world economic activities exaggerate the extent of the integration and underestimate the potential of independent national policies. Furthermore, there may be something contradictory in banishing the nation-state from the economy while at the same time enshrining it as the ultimate source of sovereignty in international relations.

In contrast, the "globalist approach" argues that nation-states are affected by globalization, and that their activities are increasingly shifting to the global agenda. In particular, the "internationalization" of production, distribution, and finance since the late 1960s has changed the role of the nation-state in world economies (Carnoy, 1993).[8] As a result, the activities and potentiality of nation-states in relation to economic policy have been significantly eroded. The monetary and fiscal policies of nation-states are increasingly being influenced by international institutions and financial markets. As Strange (1996) argued, substantial parts of the employment and investment levels within individual countries are often dominated by the decisions of transnational corporations about where they will build their production and administrative facilities. In recent years, this view has been extended by Thomas Friedman (2000), who argued that governments are locked in a "golden straitjacket" of policies based on balanced budgets, shrinking states, and economic liberalization, and that if a government fails to follow such policies, it would face the wrath of "the markets."

Even Japan has been seen as an example of such a course, in its transition from a "developmental state" to a "postdevelopmental state" (Weiss and Hobson, 1995).[9] In Korea, fundamental changes

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8. Technological development in transportation and communications helps transnational corporations transcend the territorial boundaries between national markets, which is a necessary condition for national economic policies (Carnoy, 1993).
9. Long-term macroeconomic management, the main instrument of the developmental state, has eventually come to an end. The government has also attempted to pursue consensus-style policy making in place of bureaucratic

took place during the transition from Park Chung Hee to Chun Doo Hwan between 1979 and 1981, when a metamorphosis took place—from a mercantilist economic system to a market-oriented and more internationalized system (Y. T. Kim, 1999). Whether prompted by the internal failure of the developmental state or by the external pressures exerted by international agencies such as the IMF and World Bank, economic liberalization and privatization have resulted in significant changes in the roles and capacities of modern capitalist states. Thus, many seem to share the view of the reduced role of the state, and of the increasing globalization of the world at the economic, political, and cultural levels.

Finally, the "transformationist approach" suggests that the capacity of nation-states was influenced by the globalization of the world economy, but that the nation-states have to adjust to a world in which there is no clear distinction between international and domestic, and external and internal affairs. In a more cautious manner, Held (1995) argues at the level of nonpolitical, intersocietal connections and then takes the argument through a series of stages that confirm the decline of the nation-states. This breakdown of the nation-state system leaves an opening for political globalization to address world problems, including those involving human rights, environmental issues, nuclear energy, development and inequality, law and order, terrorism, and immigration. As Held (Held et al., 1999) argued, the concept of "global governance" through "democratic globalization" has been widely used in recent years and is seen in terms of international or transnational action to protect and promote global public goods.

It is important to note that globalization is itself, to a considerable extent, the achievement of nation-states, which direct, stimulate, and support business corporations. It is also widely acknowledged that the German and French businesses, for example,

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domination (Y. T. Kim, 1999).

are still closely collaborating with the state. Even in the Anglo-American world, there is much that states can do to encourage competitiveness in the domestic economy, despite the fact that their control over international capital flows and interest rates has been reduced (Porter, 1992; Kennedy, 1993; Woo-Cumings, 1999; Weiss, 2003). The capacity of the nation-state is associated not only with its ability to intervene in and shape industrial society, but also with its ability to withdraw or abstain from intervention. This is the "irony" of state strength (Hall and Ikenberry, 1989; 96-97). Thus, it is important to note that the current interest in privatization and public-sector reform in developed and developing countries amounts to an attempt to reconstitute state power.[10]

V. The Changing Role of the East Asian States

Some analysts have observed that the East Asian states still operate national policies involving state guidance and support, if not state planning, for the advancement and development of their economies (Beeson and Islam, 2005; Weiss, 2003). They argue that Japan no longer fits the developmental-state image, but they contend that Korea and Taiwan will not adopt the consensus-style Japanese pattern of the post-capitalist developmental state. Weiss and Hobson (1995: 190-95) claim that the developmental-state pattern currently being embraced by Korea and Taiwan is what they call the "flexible state," which maintains "governed interdependence" between the administrative and business elites. They therefore see the East Asian states as having retained a considerable degree of influence in policy making, but they submit that

10. Paul Kennedy (1993) considers the role of the nation-states' long-term planning — e.g., the quality of education and political leadership — as an important factor in the domain of legitimate international competition.

globalization also contributes to the expansion of their governing capacities through both the transformation of the public-and-private-sector relations and the growth of policy networks (Weiss, 2003: 9). The basis of this argument is the idea that states have an "adaptive" capacity that allows them to innovate and respond creatively to the changing global economy. Weiss argues that such adaptive processes will be predicated on, and informed by, an existent pattern of institutions that will delimit the range of the responses and innovations that these states can come up with (Weiss, 2003: 24).

There are many signs that the Japanese and Taiwanese governments are also working to achieve the policy reforms of deregulation and competitiveness (Chu, 1994; Weiss and Hobson, 1995; Weiss, 2003; Wong, 2005). The Korean government has also implemented a series of economic reforms to pursue economic liberalization and privatization, and the state has lost much of its power to control business interests (Y. T. Kim, 1999; Kong, 2000; Chang and Shin, 2003). The capitalist developmental states in East Asia are eventually coming to an end, and the weaker developmental capabilities of nation-states are more apparent in the second-generation Asian NICs: Malaysia, Thailand, and Indonesia. We also find increasing difficulties in China's efforts to import the developmental-state model in the face of economic liberalization (Wong, 2004).

There are substantial evidences that the new partnership formula in the deregulated and market-oriented economy is unlikely to be the old style of capitalist development under mercantilist state guidance. It was during the mid-1990s that President Kim Young Sam of Korea attempted to reorganize the economic ministries, abolishing the EPB (Economic Planning Board), creating the Ministry of Finance and Economy (MOFE), and streamlining the Ministry of Trade, Industry, and Energy. The Kim Young Sam government announced that state-led economic plans and macroeconomic management would no longer be devised. The government abandoned the Five-Year Economic Plans, which had been the central feature of the developmental-state model since 1962. The government also announced that it would avoid macroeconomic management through industrial policies. Thus, the formulation of long-term industrial policies, the main function of the developmental state, came to an end. The important features of the post-developmental state are as follows: (1) the government allowed business corporations to go their own way by lifting the government restriction on investment licensing; (2) financial control became a less effective method of controlling business as the state turned to direct financing in the domestic and foreign financial markets; (3) the government continued to privatize state-owned companies such as Korea Telecom and Korea Electric Power; (4) international flexibility led the business corporations to move their capital and goods around the globe, and the business corporations increasingly freed themselves from state control (Y. T. Kim, 1999). The economic system then was more or less evolving from the traditional model, characterized by hierarchical and dominant relationships between military governments and business conglomerates.

Korea underwent a more dramatic turning point when Kim Dae Jung, a veteran opposition leader, was elected president in 1997. He wrote *Mass-Participatory Economy* in 1985, in which he criticized single-minded developmentalism and the conspicuous growth of the *chaebols*. After the 1997 financial crisis, however, he declared that he had been converted to the more solid free-market liberalism, and he abandoned his campaign promises. His government openly accepted that the only way that Korea can overcome the financial crisis was by promoting competition and foreign investment, introducing a more flexible labor market, and strengthening the antitrust laws and their enforcement (Y. T. Kim, 2005).

The announced policy reorientation towards liberal economic reforms, however, proved to be rhetoric without action due to the fear that economic liberalization would lead to unemployment, social turmoil, and loss of government control. Kim and Kim (2006: 64) correctly pointed out that the government bureaucracy under Kim Dae Jung had become larger. The government also increased social spending to help the unemployed and the poor in the face of economic difficulties. The situation that had been created by the neoliberal reformers, however, was inherently unstable, and some government policies were not expected to continue. In general, the demise of the developmental state seemed to have become an inevitable trend after the 1997 financial crisis.[11] This is different from the state intervention of the military government, which played a major role in the restructuring of the heavy chemical industry of Korea in the early 1980s.

The Kim Dae Jung administration pursued corporate restructuring and industrial reorganization to make the business conglomerates more efficient. Following the logic of market reforms, the government had to stop itself from using its emergency funds to save the insolvent companies. Consequently, 13 *chaebols*, who were among the top 30 business groups, including Daewoo, Kia, and Hanbo, went bankrupt (see Table 1). The most dramatic incident, however, came in mid-1999: the collapse of the Daewoo Groups, the fourth largest business group in Korea then, which had about US$ 80 billion in corporate debt. It went down in Korean business history as the largest corporate bankruptcy ever.

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11. For a further discussion of the impact of the Asian financial crisis, see Robinson (2000).

Table 1. List of Insolvent Chaebols, 2001

Unit: billion won

Chaebol	Assets	Debt	Status
Kia	14,186	6,624	Sold to Hyundai Motor
Hanbo	4,470	4,091	Court receivership, Sale
Halla	6,627	6,453	Court receivership
Jinro	3,898	1,917	Composition
Haitai	3,397	3,046	Court receivership, Sale
New Core	2,803	1,215	Court receivership
Sammi	2,515	875	Court receivership
Chunggu	1,897	728	Court receivership
Daenong	1,759	1,172	Court receivership
Ssangbangwool	1,420	595	Court receivership
Hanshin Construction	1,326	502	Court receivership
Soosan Heavy	1,267	639	Court receivership
Taeil Media	1,102	588	Composition
Total	46,667	28,445	

Source: Reconstructed from OECD (2001: 221).

When Kim Dae Jung was inaugurated in 1998, he did not propose any interventionist industrial policy, which was easily observed during the period of the developmental state, but intervention took place during the process of corporate restructuring and workout in the name of "Chaebol Reform" and "Big Deal" (Chang, 2003). This resulted in a serious change in the ownership of the *chaebols* (see Table 2).[12] Government ownership also declined as the Kim Dae Jung government implemented a massive privatization program of state-owned and state-controlled banks as well as of large-scale companies like POSCO and KT. Foreign

12. For more discussion on the corporate governance of the Korean business groups, see Y. T. Kim (2003).

investors now hold around 35-40% of the total shares in the Korean stock market. In particular, foreign investors hold over 50% of the shares in large firms such as POSCO, Hyundai Development, Samsung Electronics, Cheil Communications, Daelim, and Hyundai Motors.

Table 2. **Stock Distribution by Investor Type and Market Value, 2003**

Investor	1998	1999	2000	2001	2002
Government	19.72	16.43	2.59	6.60	5.66
Banks	3.09	2.97	2.59	6.60	5.51
NBFLs	10.56	13.94	13.24	9.15	10.34
Corporations	19.78	19.11	19.60	17.16	20.15
Individuals	28.87	25.87	20.04	22.32	22.33
Foreigners	17.98	21.69	30.19	36.62	36.01
Total	100	100	100	100	100

Note: NBFLs: non-bank financial institutions
Source: Korea Stock Exchange, *Stock*, March 2003.

The government's free-market liberal reforms faced opposition from the powerful *chaebols* and trade unions because the resulting competition accelerated company bankruptcies and lay-offs, resulting in large-scale unemployment and social unrest. The government, however, sought a class compromise between big business and labor that allowed liberal reforms to be put in place while providing labor with modest social-security benefits. *DJnomics* (1998), published by the government, also suggested that the Korean economic model be patterned after the German liberal tradition and the social-market model in terms of economic liberalization and globalization.[13] This demonstrates the political

13. The ordo-liberalism model developed by the Freiburg School of Germany considers the government's role in maintaining order in the market economy important. Ordo-liberalism highlights the need for active government

complexity of Kim Dae Jung's economic and social policies.

The policy orientations and programs of the Kim Dae Jung government are based on the historical heritage of state-led industrialization. The "first way" taken by Park Chung Hee was a path to industrialization involving top-down intervention and control, much like the developmental dictatorship and economic nationalism that existed in Korea in the early 1960s. The "second way," however, was an extension of neoliberalism, which was advocated by the business conglomerates and economic technocrats and which emerged in the 1980s. It focused on full-scale economic liberalization and globalization. The Kim Young Sam government strongly pursued neoliberal economic policies and abandoned the traditional development plans by abolishing the Economic Planning Board (EPB). A "third way" espoused by the Kim Dae Jung government attempted to compromise traditional statism and to market fundamentalism. In a sense, it is believed that this economic reform was the "Third Way" that was promoted by the Clinton and Blair administrations.[14.]

The government's efforts to find a "third way" require a social pact between labor and business that amounts to a class compromise and political negotiation. In January 1998, the Kim Dae Jung government established the Tripartite Commission (*No-Sa-Jông Wiwônhwoi*: Labor-Employer-Government Commission),

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intervention to reinforce market functions, but argues against government intervention in individual resource allocation.

14. The Third Way, which was first proposed by President Bill Clinton in 1996, when there was relatively less ideological conflict, provided for less corporation taxes, less income tax deductions, welfare reforms through the "welfare to work" program, and a sound fiscal status. Such policies were also implemented by Britain, Germany, and the Netherlands in the mid-1990s, but in a different way. Some left-wing critics argue, however, that The Third Way is similar to the neo-liberal economic policies, which abandon social democratic principles.

whose task was to pursue political negotiations between the state, big business, and organized labor. The government attempted to introduce a flexible labor market policy that allowed the *chaebols* to effect massive lay-offs in exchange for their implementation of social-security programs. It is observed, however, that the new corporatist institutions have come under increasing pressure as a consequence of economic globalization and neoliberal reforms. It is not surprising that the Tripartite Commission has not been successful in negotiating with trade unions and employers after the introduction of the flexible labor market policy. The establishment of a more liberal market economy and a more democratic political system has not curtailed the capacity of big business to advance its interests.

As the government has decided to cut its financial support of the *chaebols*, which was practiced in the heyday of the developmental state, the role of the government is gradually changing from that of controlling the market to protecting it. Although the government's regulatory policies have shown a rather confusing stance between neoliberalism and the interventionist approach, there is a marked difference between the recent relationship between the government and the *chaebols* and that in the traditional developmental-state model. While the developmental state has for a feature a strong government that controls the market through interventionist measures, the Kim Dae Jung government attempted to protect the market functions and to reduce the government regulations. This distinct feature of the Korean government is somewhat similar to a feature of the postdevelopmental state that has existed in Japan since the early 1990s, but it can be distinguished from the neo-liberal regulatory state, which wants to minimize state intervention.

The institutional features of the Korean government are a legacy of the state-led growth model that took shape in the aftermath of the 1961 military coup. The Kim Dae Jung government, however, cannot be categorized as a traditional developmental state. The economic and industrial policies of the Kim Dae Jung government are very different from those of an authoritarian developmental state: those of the Kim Dae Jung government are less bureaucratic and more cooperative with the *chaebols*, continuing its consultation and negotiations with them.

As was mentioned above, the state-centered analysts argue that in the 1990s, the Korean government was becoming a "flexible state" that maintained government autonomy while emphasizing continuing negotiations between the government and the business corporations (Weiss and Hobson, 1995; Weiss, 2003). After the 1997 financial crisis, however, the intense economic liberalization and globalization that took place fundamentally transformed the nature of the Korean government in terms of economic management. The autonomy of the government has become seriously limited as it allowed foreign capital to be invested in Korea's domestic-capital market. It is important to note that since the government pursued market-conforming economic policies such as privatization, capital liberalization, and flexible labor market policies, it had to abandon the financial and industrial policies that supported domestic capital. Such structural limitations seriously weakened the capacity of the "flexible state," and the government's neoliberalism-inspired institutional reforms produced a more market-oriented state. The post-developmental state established rules governing the market economy and abolishing government regulation. As such, it can be said that the post-developmental state is evolving into a market-oriented state rather than into a flexible developmental state.

Ⅵ. Concluding Remarks

The real issue surrounding the success of the developmental states is, in essence, related to the power and capacity of the state to organize and mobilize the society. The developmental state, however, contained the seeds of its own destruction: its very nature was proven to be ineffective in terms of coping with the process of economic liberalization. With the spread of economic liberalization in the early 1980s, the developmental states gradually lost their power to control and manage the economy. In general, since the 1980s, the resurgence of neoliberal economic strategies has been undermining the preconditions for the existence of developmental states at the macro level.

A further critique of the developmental states arises from the argument that the context of the developmental-state model is always provided by the internal power structures of nation-states. The structural changes that have occurred in the global economy seem to have curtailed the opportunities for the further development of national developmental states. Great transformations have occurred as a result of the increasing disaggregation and globalization of production processes, the liberalization of global finance, and the emergence of regulatory agreements promoting international trade. The deregulation of international markets and of financial institutions, in particular, has tended to reduce the capacity of developmental states to make their economies more open and to help their domestic capital, and especially their domestic labor movements, much more, subject to the terms and conditions of international competition. The increased scale and influence of the global financial institutions has created a form of "regulatory arbitrage," in which most governments compete to attract mobile capital by attempting to create the most pro-business environments in their respective countries.

The prospects for sustaining traditional development programs within nation-states seem even less promising in a deregulated global economy. Thus, East Asian states have recognized that their national economic-development systems have declined, and that their policy initiatives have therefore become less effective. The East Asian states have witnessed a transition from the developmental state to the post-developmental state, although many statist theorists still underestimate the significance of this transformation. It is evident that the East Asian states are attempting to adapt and adjust to the changing social and economic realities and political relations, and to the new world order.

It is important to note that globalization has influenced the role of the nation-states but that these states' adaptiveness has allowed them to devise a new way of collaborating with the increasingly globalizing business groups. Organized social groups are intensifying their demands in relation to the changing role of the bureaucratic state. The non-state sectors have much greater opportunities to organize and propagate their views and interests. At the same time, the state bureaucracies are fostering the organizational structure of social groups. These structural interrelations take into consideration the important changes in the role of the state and social groups that have taken place in the era of globalization. The role of the state becomes more important in some significant respects as the pace of globalization accelerates, contrary to the popular perception that it invariably diminishes.[15.]

The East Asian states are more easily penetrated than other states are, and they thus cannot be considered insulated agents. The demise of state bureaucracy does not necessarily mean, however, that organized social groups will dominate the bureaucratic states. The growing presence of the "embedded structure" between the state and the social groups makes it harder for state bureaucracies to sustain coherent and cohesive state apparatuses

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15. Focusing on the interaction between mobile factors and less mobile factors, Shin (2005) elaborates on the argument by comparing the different challenges faced by the developmental states of South Korea and Singapore. See also Wong (2004).

in the Weberian sense. The transitional form of state-society relations suggests a more complex structure of social and political embeddedness. Although the relative long-term decline of the developmental state is inevitable, the East Asian governments must think about how they can promote financial stability, economic competitiveness, and social consensus. In this context, what most East Asian states need is greater state capability and adaptiveness.

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