Hundt, David 2014, Economic crisis in Korea and the degraded developmental state, *Australian journal of international affairs*, vol. 68, no. 5, pp. 499-514.

Economic Crisis in Korea and the Degraded Developmental State

Dr David Hundt

School of International and Political Studies, Deakin University, Melbourne

dhundt@deakin.edu.au

David Hundt is a Senior Lecturer in International Relations at Deakin University, Melbourne. He is grateful to Stephen Bell, Liz Thurbon, Sung-Young Kim, and anonymous reviewers for their helpful advice on earlier versions of this article.

Abstract:
This article analyses the Korean developmental state since the late 1990s, and argues that the state has continued to play a weighty role in the economy. The state guided industrial and financial restructuring after the Asian economic crisis, and intervened to stimulate the economy during the 2008 global financial crisis. Instead, state elites have displayed a distinctive form of economic leadership that is largely consistent with the developmental state. Rather than focusing predominantly on performance-related indicators of state strength such as growth rates, we analyse the deeper aspects of the developmental state, specifically its internal functions and its collaboration with business. The article brings politics back into analysis of the developmental state by questioning the assumption that strong economic performance is necessary for the maintenance of close ties between the state and chaebol. Instead, it argues that economic performance is better understood as a predictor of patterns of conflict and cooperation. By doing so, the article explains why long-standing ties between the state and big business have endured two significant economic crises, even if the performance of the developmental state has been less impressive than in earlier decades.

Keywords:
chaebol, developmental state, neo-liberalism, South Korea, state–business relations, strategic intent

1. The Developmental State amid Economic Crisis

The East Asian economic crisis of 1997–98, and the global financial crisis (GFC) of a decade later, have generated much debate about the developmental state. Given that South Korea (hereafter Korea) was closely associated with the state-led model of development, and that these economic crises affected Korea more significantly than most states in the region, the Korean case has come under heavy scrutiny. Some predicted that Korea would, because of two cataclysmic crises, abandon its distinctive approach to economic management, and instead become a liberal market economy. In late 2013, however, Korean president Park Geun-hye propounded a vision of a 'disciplined' and 'well-functioning' market that formed part of a 'creative' economy capable of producing positive social outcomes (Park, 2013: 44). This depiction of the market is at odds with what is usually expected of liberal-market economies, and it invites closer analysis of the Korean state since the 1990s.

The 'declinist' or 'endist' school predicted that the economic crisis would mark the end of developmentalism. Due to the restructuring of the chaebol conglomerates and financial institutions, these scholars argued that a 'new' neoliberal state was emerging in Korea. In this view, the crisis instigated a 'dual process of embracing and dismantling the legacy of the former state-led developmental regime' (Kalinowski and Cho, 2009: 223). Higher levels of foreign investment, labour market deregulation and greater independence for the central bank signified a turn to neo-liberalism, with the developmental state reaching its 'final stage' (Lee and Kwak 2009, 281–82). The decision to allow Daewoo Motors and Samsung Motors to pass into foreign hands illustrated the magnitude the changes underway: 'It is simply inconceivable that the state would have allowed, let alone promoted, the sale of a major Korean firm in such a strategically important industry prior to the crisis' (Pirie, 2005a: 367). Further, the Korean state 'had essentially given up trying to coordinate private sector investment and had surrendered its dominant position within the financial system by the mid 1990s' (Pirie, 2005b: 25).

In hindsight, these predictions have underestimated the capacity of the Korean state to retain its leading role in economic governance. The declinist school cites phenomena such as policy changes and lower rates of economic growth to argue that the developmental state is no longer viable, but ignores the deeper and more permanent features of the system. The state's *ends*, such as the promotion of 'national champions', may well have changed, but the state has retained and even upgraded its *means* (Thurbon, 2011). These accounts overlook the strategic aspect of state behaviour. Industrial policy has changed, insofar as the state no longer directs large-scale coordinated investment. This article argues that a strategic industrial policy focuses on industrial sectors that are *most in need of assistance*, i.e., in their initial rather than late or mature phases of development (Kim, 2012b). Consequently, as some forms of industrial policy are phased out, others take their place. The economic crisis and its aftermath illustrates that there has been both continuity and change in the Korean developmental state model.

A second group of scholars argued that the emergence of new market regulators and the importation of foreign capital have 'reconfigured' the developmental state (Chu, 2009). In this view, the Korean state continues to exercise 'strategic intent', or the strategic shaping of economic structures. The Korean state's *capacity* to influence economic actors and structures has varied over time, but strategic intent remains a hallmark of the developmental state. This is due to the persistence of 'path dependence' and the state's long-standing role in the economy (Park, 2011).

This article agrees with the claims that the developmental state continues to exercise strategic intent, but argues that statists underplay the domestic political context. The literature on state–business relations in developmental settings tends to oscillate between models of predatory rent-seeking and embedded autonomy (Evans, 1995), and the latter typically assume that relations are productive and collaborative (Maxfield and Schneider, 1997). Statist rely on notions such as embeddedness to the detriment of analysis of relations between the state and 'social actors, and business interests in particular' (Haggard, 2004: 71).

This article challenges the views of both sets of theorists on a conceptual level by bringing 'politics' back in to the developmental state. The developmental state signifies more than just an activist state and the pursuit of high rates of economic growth. It is a permanent feature of East Asian political economy, and is best typified by the close relationship between the state and big business. Relations between the state and chaebol embody an intense mode of institutionalised collaboration, mutual dependency, and cooperation. However *conflict*, especially over economic performance, also matters. The 'developmental state requires knowing the political story' (Kang, 2002: 202), and this article argues that patterns of interaction between the state and chaebol shape and constrain relations between these two sets of actors even in the post-crisis period (see also Park, 2011).

The idea that 'politics matters' during 'hard times' (Gourevitch, 1986) shapes the approach adopted here. State elites can refashion governing coalitions during times of crisis, and the Korean state has recalibrated its relations with the powerful chaebol conglomerates since the late 1990s. Our approach diverges from those that posit economic performance as the *dependent* variable in analysing the developmental state. Economic performance can instead be treated as an *independent* variable that shapes patterns of conflict and cooperation and, in turn, the perspective, strategy and capacity of state and business elites. Statism persists insofar as the Korean elites adopt a strategic perspective on economic development, and use market-based instruments strategically in areas such as industrial policy and foreign investment. Moreover, the state's structural relationship with, and dependency on, the chaebol create strong incentives to correct periodic corporate profligacy and dysfunction. State elites have adopted elements of neo-liberalism, and their commitment to strategic economic management remains intact, even if the state's capacity to discipline the chaebol has weakened. Developmentalism is still in evidence in Korea, even if it now takes a less effective and 'degraded' form. We conclude that despite the introduction of some market-based governance mechanisms since the 1990s, economic governance in Korea continues to be qualitatively different from that practiced in liberal capitalist states.

2. Assessing Change in the Developmental State

The developmental state is depicted as an alternative vehicle for socio-economic development in late-industrialising societies, especially East Asia. A literature has evolved over several decades to explain: 1) the degree to which developmental states have realised their potential, 2) how they are formed and function, and 3) their interaction with society.

The first main claim relates to the performance of the developmental state: that states intervene in national economies in order to allocate resources in ways that are at odds with market forces, and this form of intervention is effective. Proponents of the developmental state have highlighted the strategic use of subsidies, and the manipulation of prices and wages, to create conditions advantageous to the development of domestic industries (Hundt, 2009). By doing so, it is argued, the policymaking elite has fostered a distinct form of national capitalism that has allowed some East Asian states to 'catch up' with the industrialised West.

If the developmental state is to be deemed relevant and in the contemporary era, we would need to find evidence that it is still a force for positive transformation. In the developmental state system, intervention is tolerated and accepted, so long as it is advantageous to the goal of economic transformation. The state is committed to *developmentalism*, or the 'strengthening of the nation through economic growth attained by industrialization' (Suehiro, 2008: 106). Critics of the developmental state argue that over time, the 'governing' of markets (Wade, 1990) has become less effective, and even detrimental to the welfare of societies such as Korea. Lower rates of economic growth, and an inability to shield the economy from the effects of the Asian crisis and the GFC, suggest that the developmental state may be in decline or that it has even come to the end of its useful life.

Even if state intervention has become less effective than in previous decades, however, the developmental state structure cannot be easily dismantled. As Section 3 notes in more detail, the developmental state is a prominent feature of Korean society, and not one that can be quickly restructured or reformed. It is as much a political–administrative construct as an economic–technocratic one, and there are significant defenders of the prominent role for the state from across the political spectrum.

A second set of claims relate to how the developmental state functions and produces policy content. The quality of intervention, theorists assert, is enhanced because policymakers are highly competent. In this view, developmental states are staffed by a small, elite bureaucracy that is close to the political elite. A corollary assumption is that this bureaucratic talent is concentrated in an 'insulated' pilot agency, which grants the policymaking elite sufficient scope to take the initiative and function effectively (Kim, 2012a: 296).

This set of claims measure the quality of intervention and the commitment of policymakers to the goal of socio-economic transformation. Once again, it is possible to detect change over time in this aspect of the Korean developmental state. Perhaps the most notable change has been the abolition of the Economic Planning Board, the pilot agency of the Korean developmental state for three decades, in the early 1990s (Lim, 2009: 86–87). In the absence of a professional and dedicated cadre of policymakers, critics claim, the developmental state has struggled to maintain its pragmatism, developmental focus, and ability to identify future growth industries.

The 1980s marked a significant change from sector-specific industrial policy (IP) to a functional form of IP, whereby a generalised commitment to state assistance replaced particularistic plans for each key sector of the economy. IP increasingly took the form of incentives for R&D, in the form of the Industrial Development Law (Interview with KERI official, October 2013). If the quality of the Korean state's nurturing of core industries has waned, then this would signify a substantial change in the function of the developmental state. As Section 4 argues, the decline of the developmental state does not imply its ceding of leadership in economic governance. The policymaking elite still sees itself as essential to economic governance, and shows no inclination to resign its weighty role.

A third set of claims are centred on the state's relations with business. The literature assumes that policy levers are linked to private sector performance, and that policies are implemented via cooperation between business leaders and the state. The state under Park Chung Hee produced five-year plans for economic development, with concrete blueprints for future growth. The private sector committed to the state's vision through high levels of investment (Kim, 2013). The state offered incentives for firms to participate in target sectors, but attached conditions to these incentives: 'Subsidies have not been giveaways, but instead have been dispensed on the principle of reciprocity' (Amsden, 1992: 8). Protection from imports, subsidised credit and policy loans have been the main mechanisms for assistance (Chang, 2007: 17; Lim, 2009: 84–85), but the main criteria has been success in exports and thus the creation of internationally competitive firms and products.

More so than in other East Asian states, a small number of family-owned conglomerates have dominated access to, and the use of, economic resources in Korea. Although the '"strong state" has been the focus of much of the literature, the surprising strength of the business sector has received less attention' (Kang, 2002: 191). Despite the close ties between the state and business (such as between the Hyundai Group and the Kim Dae-jung and Lee Myung-bak governments), Korean capital has a substantial degree of *structural power*: the power that big business accrues on the basis of its position and role in the economy (Lindblom, 1977).

For this reason, it has been difficult to punish bad performances, and the links between policy levers and private-sector performance have not been absolute. The state's capacity to discipline the chaebol has varied, both over time and on a sectoral basis: the high 'sunk costs' of the shipbuilding industry limited the capacity of the state to withdraw support for firms in that sector (Kim, 1999b), but it established a successful national strategy with firms in the mobile-communications sector that allowed the industry to innovate rather than merely 'catch up' (Kim, 2012a: 301) with overseas rivals.

Section 5 finds evidence of continuity in the developmental state, in terms of the long-standing ties that state elites have shared with the chaebol. The performance of the chaebol is a key independent variable, and helps predict when state–business relations are likely to switch between cooperative and conflictual modes. An economic crisis is likely to result in more conflict, whereas a bountiful economy is likely to result in a more permissive environment and reduce the likelihood of disciplinary measures against the chaebol. State elites refashion governing coalitions in times of crisis (Gourevitch, 1986), muddle through crises, and retain their leading roles in the economy. As the recent decade of flux, with its economic and financial crises in East Asia (and more recently the US and Europe) illustrates, 'politics matters' during 'hard times'.

3. Intervention: Persistent if not Effective?

A longstanding form of direct intervention by the developmental state has been to address excessive leveraging by the chaebol. In the early 1960s, for instance, Park Chung Hee threatened to imprison business leaders unless they complied with his development strategy. Another intervention occurred in the late 1960s, when a build-up of corporate debt threatened to derail the first phase of state-led development. The state rescued the chaebol and offered them preferential access to the heavy and chemical industry (HCI) project in the early 1970s. A third intervention occurred in the early 1980s in order to address the indebtedness that the HCI project produced; the state sponsored the rationalisation of sectors such as electronics and shipbuilding.

After assuming power in 1998, President Kim Dae-jung signaled a willingness to correct the chaebol's excesses again. Kim vowed to 'totally rescue firms from the chains of power and from the protection of power... only firms that adapt to the market economy and are victorious in global competition will survive' (Kim, 1997). 'Cosmetic reform', he said, 'will not be permitted this time' (cited in Lee, 1998: 61). The government proposed that the chaebol undertake 'Big Deals' (asset swaps) to reduce excess capacity and indebtedness. A symbolic test of the chaebol's compliance with the reform agenda was that their debt-to-equity ratios not exceed 200 percent. The minister for finance and economy, Lee Kyu-seong, explained the government's rationale: 'Companies, in the past, had a finger in every pie and concentrated on expanding their power quantitatively but now that kind of indiscriminate expansion is instead acting as a burden' (cited in Song, 1999: 97). Three cases illustrate the continuity of Big Deals with earlier interventions, and the blunt nature of that policy tool.

The Daewoo Group, which had borrowed heavily, became the most prominent victim of the Big Deals. Most chaebol paid lip service to the government's target, but Daewoo increased its debts by 30 percent during 1998 (Yoon, 1999: 272). According to former minister Kang Bong-gyun, most chaebol 'had debt–equity ratios of more than 300 percent. However the difference was that other groups recognised that conditions had changed, and reduced their bad investments... Daewoo didn't sell a single business unit' (cited in Park, 2007: 349). As a salutary lesson to others, the government allowed Daewoo to collapse in late 1999.

Another instance of state discipline through the Big Deals involved Samsung Motor. Samsung proposed that it acquire Kia Motors, which had collapsed with debts of $13 billion. The government preferred that foreign interests buy Kia rather than allowing a domestic carmaker to perpetuate the overcapacity problem by acquiring Kia (Lee, 2002: 66). It rejected Samsung's proposal, and suggested that, as the newest and least profitable producer, Samsung merge with Daewoo. The carmakers, however, could not agree to terms on a merger. Samsung had insufficient funds to acquire Daewoo or survive independently, and declared its motor division bankrupt in 1999. It resumed production after selling 70 percent of its equity to Renault (Kim, 1999a: 296–297; Yoo, 1999: 256–257).

The costs of state-sponsored restructuring were evident in the Hynix case. In what was dubbed a 'shotgun marriage', the state pushed LG and Hyundai to merge their semi-conductor operations despite reluctance from both firms. The merged entity (Hynix) lost almost $6 billion over two years, necessitating a series of bailouts, which one Korean newspaper called 'pouring water into a bottomless jug' (cited in Cherry, 2003: 185). The costs of restructuring Hynix far outweighed the benefits, and this was the final attempt to restructure the chaebol through the Big Deals.

A second form of intervention took place in the financial sector. According to a former government adviser, 'from the mid-1990s, we didn't have the appropriate degree of regulation. Large enterprises recklessly expanded their businesses through bank loans and were also structurally weak' (cited in Park, 2007: 345). As a remedy, the government integrated the bodies responsible for supervising banks, bonds, insurance and credit-management funds. The newly formed Financial Supervisory Commission expedited chaebol restructuring by reducing their propensity to borrow excessively (Lee, 2005: 294–295). It declared a number of institutions insolvent, including five large banks. Viable institutions acquired non-viable ones, resulting in a reduction in the number of commercial banks from 33 in 1998 to 18 in 2006 (Kalinowski and Cho, 2009: 230–232). Financial reform seemed to produce a more resilient sector. Non-performing loans (NPLs) peaked at 11 percent in 1999, and fell to around 1 percent during the next five years. This compared favourably with a region-wide NPL average of 25 percent in 1998 and 4 percent in 2009. Amid the Asian economic crisis Korean banks maintained liquidity ratios at the prescribed BIS rate of 8 percent, and this increased to 12 percent in the mid-2000s (Stallings, 2010: 12–16). Partly as a result of these reforms, the chaebol did not require bailouts during the GFC, despite suffering revenue shortfalls. By contrast, SMEs experienced difficulty in accessing credit amid tightened market conditions (Köllner, 2009: 29).

The chaebol had 'amassed debts averaging around 4.5 times their assets in 1997. The debt-to-equity ratio averaged 449.4 percent in 1997' (Lee and Kim, 2010: 315). Financial reform was successful in that debt-to-equity ratios fell to about 100 percent for the top-30 chaebol by 2004 (Park, 2011: 597). Regulatory changes encouraged greater diligence on the part of banks. Kookmin Bank for instance reduced its exposure to chaebol subsidiaries such as Hyundai Motor and Hynix Semiconductor. Kim Jung-tae, a former president of Kookmin, said: 'We all know the myth of "too large to fail" in connection with Korea's *chaebol* conglomerates. I simply decided not to deal with them' (cited in Zielenziger, 2007: 256).

An unexpected side-effect of the reforms was that a consumer debt problem replaced the corporate debt problem. The government promoted the use of credit cards to boost consumption and reduce cash transactions, which are difficult for tax authorities to trace. In 2013, consequently, Koreans had an average of 4.4 credit cards per person, and conducted almost 130 transactions per year by credit card, the highest in the world (*The Economist*, 2013b). Household debt increased by 15 percent between 2006 and 2013, and stood at 86 percent of GDP in early 2013. This form of debt grew faster in Thailand and Malaysia, but Korean household debt was higher than any other Asian society (*The Economist*, 2013a).

A related form of intervention was direct fiscal stimulus on a significant scale. First, the government spent $176 billion on stabilising the financial system during the Asian economic crisis. This was one of the most expensive bailouts in history (Kalinowski and Cho, 2009: 233), amounting to more than 10 percent of GDP. In the decade following the Asian crisis, short-term debt increased sharply. This was mainly attributable to higher levels of borrowing by Korean banks, from $40 billion in 2001 to $160 billion only six years later (Bank of Korea, 2010). With the financial sector experiencing a severe credit crunch, foreign investors repatriating capital from Korea, and foreign-exchange reserves falling from their high levels of the early 2000s, the government implemented the largest stimulus package in the OECD, relative to GDP, during the global financial crisis of 2008.

The forms of intervention reviewed above illustrate that the developmental state is still willing and able to intervene in the economy, but that its effectiveness has been reduced. Chaebol restructuring, the enforcement of more stringent lending standards and fiscal stimulus are significant short-term remedies that have the capacity to reinvigorate a crisis-afflicted economy, but they do not display the trademark developmentalism of earlier decades.

4. Transforming Industrial Policy

As noted earlier in this article, industrial policy (IP) has evolved since the 1980s, and also against the backdrop of two subsequent economic crises. The state's role in 'industrial transformation [has become] more difficult and politically sensitive perhaps, but [it is] still central to the process of seeking a more desirable niche in the global division of labor' (Evans, 1995: 234). The focus of IP has turned to SMEs rather than larger projects such as the HCI drive. The chaebol have become less reliant on state support. Collectively, the chaebol are among the world's leading producers of flash memory, DRAM chips, steel, cars and ships (Ziegler, 2008: 8). The means of IP have thus changed as the economy's level of sophistication has increased, resulting in 'finetuning' rather than the forms of intervention associated with the initial stages of industrialisation (Kim, 2009).

The principles of 'selection and concentration' continue to guide the nurturing of new industries, such as information technology (Chu, 2009: 289–290). The state's financial resources and its mediation between the private sector and public utilities has also played a central role in the construction of Korea's national broadband network (Lee, 2009). New modes of inter-ministerial cooperation have emerged to promote the development of industries such as bio-technology. Cultural industries have expanded since the late 1990s with the popularity of the 'Korean Wave', and Korean exports of popular culture now garner substantial earnings. The government commits about 1 percent of its budget to support these industries (Slattery, 2012).

The abolition of the pilot agency in 1993 has resulted in a form of IP that is less monolithic than in earlier decades. It is thus possible to identify a degree of hybridity and sectoral variation in IP, as well as divisions within the economic bureaucracy. That is, different aspects of the state respond to different logics. The developmentalist logic remains strongest in the Ministry of Information and Communications (which is responsible for the promotion of sectors such as IT and biotechnology). The same cannot be said of the financial sector, which, as noted in the previous section, has been exposed to international competition.

IP has survived and evolved, but it tends to be reactive and defensive rather than proactive and developmental, as in previous decades. The state has not planned for next-generation industries, and has not identified industries capable of replacing shipbuilding, steel and electronics as the next set of mainstays for the national economy (Kim, 2013). Support for SMEs, meanwhile, is in part a means of compensating for an inadequate welfare state. Small businesses have clamoured for protection from the predatory behaviour of the chaebol, as illustrated in the controversy surrounding the threat that chaebol-affiliated bakeries pose to their smaller, independent rivals (Lee, 2012a).

An example of the changing nature of IP can be found the facilitating role that the state has played in helping Korean firms secure access to overseas markets through free trade agreements (FTAs). Net exports contributed 35.3 percent to Korean economic growth between 1990 and 2000, and 53 percent between 2001 and 2012. The Korean economy is thus highly dependent on foreign trade: the ratio of exports and imports to gross national income exceeded 100 percent from 2010 to 2012 (Yoon, 2013a). Consequently, Korea has pursued a series of FTAs since the late 1990s. Korean trade agreements covered about 38 percent of its exports in 2011. Until 1999 Korea was the only state other than Mongolia to not be party to an FTA (Yoon, 2013b), but it now has agreements with almost 50 states. Of Korea's six biggest markets, three (the US, the EU and ASEAN) are FTA partners.

The state is also less protective of national champions. A notable development since the Asian economic crisis is that foreign ownership of Korean banks has increased, from 14.6 percent in 1997 to 37.3 percent in 2006. It has also become easier for non-Korean buyers to acquire local firms. By April 2004, foreign investors held 43 percent of the shares in companies listed on the Korean stock exchange. Sizeable portions of enterprises such as POSCO and Hyundai Motor passed into non-Korean hands, and foreign investors held 55 percent of Samsung Electronics by 2006 (Kalinowski and Cho, 2009: 233–234; Yang, 2010: 472; Zielenziger, 2007: 233). The changing patterns of corporate ownership are significant given the developmental state's quest to nurture 'national' capitalism. Some Korean observers have warned about the potentially destabilising effect of growing levels of foreign ownership, stemming from the abrupt repatriation of profits or the sale of corporate assets, such as the case of US equity fund Lone Star (Fifield, 2007: 21).

From Park onwards, Korean leaders have pursued a 'minimal performance standard' in order to earn legitimacy and thus justify their positions. The two most tangible measures of performance are increases in aggregate growth and individual income. Park for instance oversaw growing income levels and high growth rates, and people became increasingly optimistic under his rule despite their lack of democratic freedoms (Interview with former economic advisor, October 2013). Korea's economic growth rate has gradually fallen from its stellar levels of previous decades. Kim Young-sam, whose final year in office coincided with the Asian economic crisis, became the first Korean president to fail the performance test, in that overall growth was lower than during his predecessor's term. Roh Moo-hyun also failed the test, as Korean growth in the first decade of the 2000s was below the world average. Under Lee Myung-bak, the average fell below 4 percent, suggesting that Korea had entered a new phase of comparatively low growth (Interview with former *Joongang Ilbo* columnist, October 2013). Further, the proportion of the population that considered themselves to be middle class was barely 50 percent in 2011, the lowest since such surveys were conducted in the late 1980s (Jun, 2011). What is more, a range of organisations, including Moody's Investors Service, the Bank of Korea, the OECD, the Asian Development Bank and the IMF, predicted that Korean growth for 2013 would only be between 2.5 and 2.8 percent (Yoon, 2013a).

Just as direct forms of intervention have become less effective, so too has IP, when it is measured in terms of its impact on economic development. IP is now practiced on a reduced scale than in previous decades and thus its potential impact is commensurately smaller. This reduced ability to make a positive economic impact has removed a source of legitimacy for Korean governments.

5. Chaebol Discipline and its Limits

Since the late 1990s, relations between the state and chaebol have also been transformed but remained intense. Two powerful sets of actors have coexisted uneasily. The chaebol have been an easy target due to their perceived ill-gotten gains during the colonial period and early phases of Korean development. Consequently, the state has long treated the chaebol as scapegoat, and targeted them for punishment through punitive taxes and investigations (Lee, 2012a). The chaebol have prospered so long as they have not exhibited overt political ambitions, but they have maintained good relations with most presidents from Park onwards. Chun Doo-hwan and Roh Tae-woo, as former military leaders with dubious democratic credentials, similarly treated the chaebol as a public enemy. After these leaders 'made the chaebol owners' lives miserable', the conglomerates made large 'voluntary contributions' in the form of bribes (Interview with former economic advisor, October 2013), and entered into mutually profitable relations with the state.

The historical tensions between the chaebol and the state have persisted, and have been evident since the 1990s. For instance the chaebol initially supported Kim Dae-jung during the Asian economic crisis, especially his calls for burden-sharing between state, labour and business. However, some chaebol owners accused the government of pursuing inefficient policies (Interview with KERI official, October 2013). According to an advisor to the Federation of Korean Industry (FKI), the peak chaebol lobby group: 'The state claims to be in favour of chaebol reform, not the dissolution of the chaebol. However the chaebol will be broken up if all the [Big Deal] policies that the state has suggested are implemented... It's just using the expression of reform' (Lee, 1999: 255–256). An advisor to the FKI accused the state of intimidating the chaebol: 'Is it negotiating to haul business leaders in front of the president and tell them to sign an agreement... This is close to a reign of terror' (cited in Lee, 1999: 254).

Under Kim and other leaders, the state has disciplined the chaebol through the Fair Trade Commission (FTC). The chaebol have been variously accused of anti-trust violations, false advertising, monopolistic pricing, and 'unfair intra-group financing practices that the government sees as posing systemic risks to the economy' (Song, 2003: 41). Regulation by the FTC of chaebol activity increased following the Asian economic crisis: the number of chaebol-related regulations that the FTC was responsible for implementing increased from 75 in 1998 to 167 in 2006 (Park, 2011: 598). In relation to an investigation into the breach of regulatory codes by several chaebol, FTC Chairman Kang Chul-kyu said in 2003: 'We have to fix things that are wrong... Although it might be painful, this is the right time to pursue structural reform and this investigation is one of the many ways to push the reform process' (cited in Song, 2003: 41). In 2010, a FKI former president accused the Lee Myung-bak government of failing to exercise adequate leadership. Incensed by this criticism, the government 'found a hammer' in the form of the FTC and several chaebol were accused of 'exploiting subcontractors with "unfair" business practices' (Kim, 2010: 8).

The state's use of disciplinary power has, however, been conditional, as illustrated in its dealings with Samsung. The group's former chairman and CEO Lee Kun-hee was charged with tax evasion and breach of trust in 2006. He was convicted but not imprisoned after agreeing to retire from positions of formal control in 2008. Prosecutors were 'fearful of hurting the "geese that lay golden eggs" too much' (Köllner, 2009: 31). The director of Samsung Holdings stated:

'We have accepted… the need to reflect on improper practices of the past and proposals for reform' (cited in Kwak, 2006). The pardoning of Lee and other corporate leaders illustrates that the state 'and judiciary still shy away from jailing convicted captains of industry' (Köllner, 2009: 33). Despite detecting over 3,500 cases of price-fixing in 2010 alone, the FTC issued only 66 fines to Korean corporations (*The Economist*, 2012).

Another illustration of the limits to state strength in respect to the chaebol is evident in the inability of the government to boost private-sector investment in the domestic economy. In July 2013, for instance, Samsung Electronics announced that it would invest only 12.5 percent of its new multi-billion-dollar capital plan in Korea; most of the funds would instead be spent overseas (Lee, 2013). LG Electronics, similarly, has increased production abroad at the expense of its domestic facilities. Hyundai Motor also spent far more on overseas operations rather than local ones. For the first five months of 2013, domestic production constituted only 38 percent of the Hyundai total; more than 60 percent of its cars were instead made offshore (Shim, 2013). The chaebol do not seem to be optimistic about the prospects for the domestic economy, and are not responding to government schemes aimed at promoting investment between the conglomerates and SMEs (Kim, 2013).

All Korean governments promise to pursue chaebol reform, but none have succeeded in changing the chaebol model completely. Measures such as the appointment of outside directors, which had the effect of strengthening oversight of chaebol owner–managers, were passed following the Asian economic crisis (Cho, 2007). This was the exception to the rule, however: the chaebol have defied attempts to change practices such as circular equity investments, cross-shareholding among conglomerate units, intra-group transactions (Lee, 2012a; Lee, 2012b), as well as a host of 'pre-modern and anti-market practices, such as window dressing in accounting, irregular wealth inheritance, [and] embezzlement of company funds' (Jun, 2011). Park Geun-hye promised during her campaign for the presidency in 2012 to pursue 'economic democratisation', in part due to a perceived need to respond to the ills caused by the chaebol's outsized socio-economic influence (Lee, 2012b). The chaebol, however, are big enough to resist reform. Despite attracting the antipathy of both state elites and the public, the chaebol are somewhat impervious to punishment due to their role in wealth-creation.

6. A Degraded Developmental State?

This article argued that the Korean state no longer operates in full accordance with the model of the developmental state, as some statists claim. Nor has it evolved into a neo-liberal state, as transformationalists might contend. Instead, we found that the Korean state has continued to intervene, but in a less effective way than in previous decades. Industrial policy has changed, in that it has shifted away from purely nationalistic ends. And the state's relations with the chaebol remain close but tense. In short, state behavior in Korea largely accords with the claims of the developmental state thesis, but represents a *degraded* form of developmentalism.

Korea remains distinct from liberal-market economies, even after two significant economic crises since the late 1990s. The Korean case defies predictions that firms outgrow state support amid conditions of globalisation – along the lines of a Marxist-inspired 'gravedigger' hypothesis (Evans, 1995: 229). Korea has not merely arrived at the 'last stage of the developmental state', and it is not a 'limbo state' (Kalinowski, 2008: 450). The developmental state has evolved and has adopted new forms of assistance to industry, although these forms of assistance have a lower degree of transformative potential than those practiced in earlier decades.

The clearest evidence that the ethos of the developmental state persists comes in the form of state–business relations. Economic performance is usually treated as the *dependent* variable in relations between the developmental state and the chaebol. This article argued instead that economic performance is an *independent* variable that has shaped the perspective and strategy of Korean state elites and in turn the uneven patterns of conflict and cooperation. Economic performance still mediates the state's relations with the chaebol. There continues to be a form of 'alliance' in Korea, especially from the perspective of state elites, who remain convinced that markets – and the chaebol – are prone to failure but necessary for the creation of national wealth.

A 'successful developmental state', according to one observer, 'is one that knows when to quit' (Herring, 1999: 330). Given the degraded quality of its developmentalism, it is tempting to predict that Korean dirigisme will soon end too. The structure of the alliance between state and chaebol, however, which encases two powerful sets of actors in mutual dependence and antipathy, significantly reduces the possibility of removing or reforming the developmental state. This form of statecraft is likely to persist for the foreseeable future.

References

Amsden AH. (1992) *Asia's Next Giant: South Korea and Late Industrialization,* Oxford: Oxford University Press.

Bank of Korea. (2010) *ECOS: Economic statistics system*. Available at: http://ecos.bok.or.kr/EIndex_en.jsp.

Chang S-H. (2007) Gaebal Gukka-eseo Sinjayujuui Geullo Gukka-ro (From a Developmental State to a Neoliberal Labour State). *Nodong Sahoe.* 15–26.

Cherry J. (2003) The 'Big Deals' and Hynix Semiconductor: State–Business Relations in Post-Crisis Korea. *The Asia Pacific Business Review* 10: 178–198.

Cho M-h. (2007) Soyu jibae gujo gyeongjaeng-sikyeora (Ownership and governance structures need to be made competitive). *Maeil Gyeongje.* Seoul, 39.

Chu Y-w. (2009) Eclipse or Reconfigured? South Korea's Developmental State and Challenges of the Global Knowledge Economy. *Economy and Society* 38: 278–303.

Evans PB. (1995) *Embedded Autonomy: States and Industrial Transformation,* Princeton, N.J.: Princeton University Press.

Fifield A. (2007) Lonestar selling off Korean Assets. *The Australian.* Canberra: Newscorp, 21.

Gourevitch P. (1986) *Politics in Hard Times: Comparative Responses to International Economic Crises,* Ithaca, N.Y.: Cornell University Press.

Haggard S. (2004) Institutions and Growth in East Asia. *Studies in Comparative International Development* 38: 53–81.

Herring RJ. (1999) Embedded Particularism: India's Failed Developmental State. In: Woo–Cumings M (ed) *The Developmental State.* Ithaca, N.Y.: Cornell University Press, 306–332.

Hundt D. (2009) *Korea's Developmental Alliance: State, Capital and the Politics of Rapid Development*, London: Routledge.

Jun S-i. (2011) Chaebol jabonjuui-ui dodeokjeok jinhwa seondo-hara (Chaebol need to lead the moral evolution of capitalism). *Donga Ilbo.* Seoul, A34.

Kalinowski T. (2008) Korea's Recovery since the 1997/98 Financial Crisis: The Last Stage of the Developmental State. *New Political Economy* 13: 447–462.

Kalinowski T and Cho H. (2009) The Political Economy of Financial Liberalization in South Korea: State, Big Business and Foreign Investors. *Asian Survey* 49: 221–242.

Kang DC. (2002) Bad Loans to Good Friends: Money Politics and the Developmental State in Korea. *International Organization* 56: 177–207.

Kim D-j. (1997) *Kim Dae-jung Daetongryeong Gija Hoegyeongmun Yoji (Main Points from Press Conference with President Kim Dae-jung).* Available at: http://www.djroad.com/.

Kim H-s. (1999a) Jeongchi Nolli-ro Taeeonatta Gyeongje Nolli-ro Sarajineun Hanguk Jadongcha Saneob-ui Bikeuk (The Tragedy of the Korean Car Industry, Born of Political Logic and Dying of Economic Logic). *The Wolgan Chosun.* Seoul, 296–312.
Kim J-s. (2013) Gieop-i silloe-haneun gyeongje cheongsajin wae eobna (Why don't we have a blueprint for the economy that business trusts?). *Maeil Gyeongje.* Seoul, 39.
Kim JH. (1999b) Gaebal Gugka-eseo-ui Gukka–Gieob Gwangye-e gwanhan Yeongu: Hanguk-ui Joseon Saneob Baljeon-gwa 'Jiwon–Gyuyul' Teje-e daehan Bipanjeok Geomto (State–Business Relations in the Developmental State: A Critical Study of Industrialization in the Korean Shipbuilding Industry and the Thesis of 'Support–Discipline'). *Political Science.* Seoul: Seoul National University.
Kim S-Y. (2009) Finetuning Strategic Capitalism in Korea: An Examination of the State's Promotion of Digital Multimedia Broadcasting. In: Park D-S (ed) *Korean Studies Association of Australasia biannual conference.* University of Sydney: Korean Studies Association of Australasia, 230–242.
Kim S-Y. (2012a) The Politics of Technological Upgrading in South Korea: How Government and Business challenged the Might of Qualcomm. *New Political Economy* 17: 293–312.
Kim S-Y. (2012b) Transitioning from Fast-Follower to Innovator: The Institutional Foundations of the Korean Telecommunications Sector. *Review of International Political Economy* 19: 140–168.
Kim T-h. (2010) Business Lobby downplays Verbal Feud with Lee. *The Korea Times.* 8.
Köllner P. (2009) South Korea in 2008: Domestic Developments and the Economy. In: Frank R, Hoare JE, Köllner P, et al. (eds) *Korea Yearbook 2009: Politics, Economy and Society* Leiden: Koninklijke Brill NV, 17–33.
Kwak J-s. (2006) *'Samsung Gonghwaguk' Bipan Jamjaeulkka (Will Criticism about the 'Samsung Republic' Abate?).* Available at: http://news.empas.com/print.tsp/20060207n08844.
Lee B-H. (2002) Restructuring and Employment Relations in the Korean Auto Industry. In: Blanplain R, Lansbury RD and Park Y-B (eds) *The Bulletin of Comparative Labour Relations **45** (The Impact of Globalisation on Employment Relations – A Comparison of the Automobile and Banking Industries in Australia and Korea).* The Hague: Kluwer Law International, 59–94.
Lee C-h. (1999) Chaebol vs Ban-Chaebol 10gaji Haeksim Jaengjeom (10 Main Issues in the Chaebol versus Anti-Chaebol Debate). *Shindonga.* Seoul, 248–266.
Lee CS. (1998) Kim Turns Up the Heat. *The Far Eastern Economic Review.* 61–62.
Lee D-w. (2013) Uri gieopdeul-ui haewoe ital makneun ge gajang sigeup (Preventing Korean firms from leaving for overseas is the most important task). *Chosun Ilbo.* Seoul, A35.
Lee K-S. (2009) A Final Flowering of the Developmental State: The IT Policy Experiment of the Korean Information Infrastructure, 1995–2005. *The Government Information Quarterly* 26: 567–576.
Lee S-b. (2012a) Chaebol-e johdago gyeongje-e-do joheunga (Is what's good for the chaebol also good for the economy? *Maeil Gyeongje.* Seoul, 38.
Lee S-b. (2012b) Gyeongje minjuhwa 5gae-nyeon gyehuik seooja (Let's make a five-year plan for economic democratisation). *Maeil Gyeongje.* Seoul, 38.
Lee Y-i and Kim W-s. (2010) South Korea's Meandering Path to Globalisation in the Late Twentieth Century. *The Asian Studies Review* 34: 309–327.
Lee Y. (2005) Participatory Democracy and Chaebol Regulation in Korea: State–Market Relations under the MDP Governments, 1997–2003. *Asian Survey* 45: 279–301.
Lim H. (2009) Democratization and the Transformation Process in East Asian Developmental States: Financial Reform in Korea and Taiwan. *Asian Perspective* 33: 75–110.
Lindblom CE. (1977) *Politics and Markets: The World's Political–Economic Systems,* New York: Basic Books.
Maxfield S and Schneider BR. (1997) Business and the State in Developing Countries. Ithaca, N.Y.: Cornell University Press.
Park G-h. (2013) Jobs and the disciplined market. In: *Economist T* (ed) *The World in 2014.* London: The Economist, 44.
Park S-w. (2007) Kang Bong-gyun Yeollin Uridang Jeongchaek Wuiijang Interview (An Interview with Kang Bong-gyun, Chairman of the Uri Party's Policy Committee). *Shindonga.* 342–351.

Park YS. (2011) Revisiting the South Korean Developmental State after the 1997 Financial Crisis. *The Australian Journal of International Affairs* 65: 590–606.
Pirie I. (2005a) Better by Design: Korea's Neoliberal Economy. *The Pacific Review* 18: 355–374.
Pirie I. (2005b) The New Korean State. *New Political Economy* 10: 25–42.
Shim S-b. (2013) Nuga gieob-eul haewoe-ro naemona (Who's driving conglomerates abroad?). *Joongang Ilbo.* Seoul, B10.
Slattery L. (2012) Seoul Sisters. *The Australian Wish Magazine.* 26.
Song K. (2003) Korea's new Chaebol-Busters. *The Far Eastern Economic Review.* 40–42.
Song Y-M. (1999) 10–20% Gamwon-Haeya Modu Sanda (10–20% [of Jobs] Must be Cut to Save All). *The Wolgan Chosun.* 88–97.
Stallings B. (2010) A Tale of Two Crises: The Political Economy of East Asian Finance in the 1990s and 2000s. *The EAI Fellows Program Working Paper Series.* Seoul, Republic of Korea: The East Asia Institute.
Suehiro A. (2008) *Catch-Up Industrialization: The Trajectory and Prospects of East Asian Economies,* Honolulu: University of Hawaii Press.
The Economist. (2012) Let them eat cake. *The Economist.* 56.
The Economist. (2013a) Household debt in Asia. *The Economist.* London: Pearson, 89.
The Economist. (2013b) A swipe at credit cards. *The Economist.* London: Pearson, 74.
Thurbon E. (2011) Why the Declinists are Wrong: (Mis)-Constructing the 1970s Authoritarian Korean State as *the* Developmental State Model. *ISA Asia–Pacific Regional Section Inaugural Conference.* Brisbane, Australia: University of Queensland.
Wade R. (1990) *Governing the Market: Economic Theory and the Role of the Government in East Asian Industrialization,* Princeton, N.J.: Princeton University Press.
Yang J-j. (2010) Korean Social Concertation at the Crossroads: Consolidation or Deterioration? *Asian Survey* 50: 449–473.
Yoo Y-e. (1999) Samsung-Cha Mollak-ui Drama (The Drama of Samsung Motor's Collapse). *Shindonga.* Seoul, 248–259.
Yoon D-r. (2013a) Solution to economic crisis lies in overseas markets. *Chosun Ilbo.* Seoul.
Yoon S. (2013b) South Korea's Free Trade Agreement Roadmap and Canada: A Case of Promise and Betrayal. *The Korea Observer* 44: 167–198.
Yoon Y-h. (1999) Muneojin Daewoo Sinhwa, Haebeob-eun Momtong Palgi? (The Collapsed Myth of Daewoo: Is the Solution to Sell it Outright?). *Shindonga.* Seoul, 264–277.
Ziegler D. (2008) The Odd Couple (Special Report on the Two Koreas). *The Economist.* London, SS1–SS19.
Zielenziger M. (2007) *Shutting Out the Sun: How Japan created Its Own Lost Generation,* New York: Vintage Departures.