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Developmental welfare capitalism in East Asia with a special emphasis on South Korea

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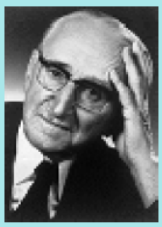



Karmo Kroos

Developmental Welfare Capitalism in East Asia with a Special Emphasis on South Korea

Diskurs 2013 – 5

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Abstract

The aim of this paper is to clarify the kind of capitalist society that is emerging in South Korea. To keep the conceptual analysis focused, the paper addresses the questions of how and why the structural and institutional socio-economic and political arrangements have changed during South Korea's catch-up process and what others could learn from it. Using a historical-comparative approach, the paper shows how the economic policy and welfare protection of the developmental welfare capitalism in East Asia in general and in South Korea in particular have changed during the different stages of the economic catch-up process. In addition, it points out the major challenges that the model faces in the future. It appears that the socio-economic and political arrangements of the era reflect the level of economic development and starting conditions, on the one hand, and the balance of power between labour, capital and the political establishment, on the other hand. The biggest challenge to the democratised and export oriented East Asian developmental welfare capitalism is the urgency to find quick but sustainable solutions to the accumulated social problems in the context of worldwide economic recession and intensified globalisation.

Keywords:

Newly Industrialising Countries, Varieties of Capitalism, Welfare Capitalism, Welfare Developmentalism

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Developmental Welfare Capitalism in East Asia with a Special Emphasis on South Korea

> [W]hile capitalism cannot coexist *with*, neither can it exist *without*, the welfare state (Offe 1984, 153, italics in original).

Introduction - Rationale for the Topic and Analytical Framework

This paper investigates the developmental welfare capitalism regimes of Newly Industrialising Countries (NIC) – placing special emphasis on South Korea (henceforth Korea). It takes Kosuke and Johnson's conceptual frame as a basis and structures the analysis of the Korean developmental state within four contested themes: industrial policy versus the market, democracy and the developmental state, the time frame and government-business relationship. Furthermore, it uses the varieties of capitalism (VoC) and welfare state literature to understand the Korean emerging market economy. Although these approaches are first used sequentially, an attempt is made at the final section of the paper to merge these theoretical frames into a holistic approach – link the production and the welfare regimes to the political system, similar to Soskice's (2007) extended VoC framework, in order to show that the Korean political economy arrangement has not been static but has evolved in stages to face the challenges of the era: from the developmental state in the 1960s and 1970s, to the modernisation state in the 1980s and finally to the contradictions of the welfare state in the 1990s and 2000s. To explain the major building blocks of Korean developmental welfare capitalism – the developmental state, the welfare regime and the political system – the conceptual framework followed in this paper will be introduced first.

Although the world is globalising, it is important to recognise that there are still plenty of differences within and among capitalist economic models, including the East Asian NIC. Therefore, political economists and economic sociologists argue that in reality there is no unified (textbook) model of a market economy that all actually existing systems follow. Hence they have proposed the framework of comparative capitalisms

instead. This analytical tradition, known as the VoC approach allows one to take into account the differences in special institutional arrangements between labour, capital and the state. In addition to this, stratification and public policy scholars of welfare states and regimes have developed typologies to understand the components of social policy under different capitalist formations. However, what is largely missing in the contemporary literature on VoC and welfare states is an attempt to combine the analyses of the economic systems with the social and political arrangements.

The VoC approach to the analysis of national economies dates back at least to the 1960s when the path-breaking books by Gerschenkron (1962) as well as the research on traditions of diversity of modern capitalism by Shonfield (1965) were published. Indeed, in the 1960sthe triumph of the distinctive national economies of Austria, France, Italy, Japan, Netherlands, Sweden, Western Germany, the UK and the USA (just to mention the "usual suspects") triggered a discussion about the diversity of capitalist systems. Rather than following one unified free-market model, these national systems encouraged policy makers and electorates around the world to find unique solutions to their national challenges. As Crouch & Streeck (1997, 1) sum up the epoch that lasted for two decades before neoliberalism started to spread (symbolised by the triumph of the conservative policies of Reagan and Thatcher on either side of the Atlantic):

> Interest in the diversity of modern capitalist economies became widespread as far back as the late 1960s, when … technologies and markets were far from fully determinative of social life under capitalism, and … societies had non-trivial alternatives with respect to how they wanted to run their respective capitalisms and, by implication, what kind of society they wanted to be. It was true that sometimes these choices had been made long ago and were now deeply entrenched in an established 'culture' that was, at least in the short term, beyond the reach of contemporary actors. Nevertheless, the very idea of alternatives and choice implied that, to some extent at least, purposeful collective action – in one world: politics – could make a difference even and precisely for the nature of advanced capitalism. Observed and relentlessly documented capitalist diversity stood for the promise that, provided one could create the 'right' political conditions, people in twentieth-century societies did have a capacity to reorganise their capitalist economic systems in line with collective preferences within a broad band of meaningful alternatives.

The success of national economies survived the oil crisis of the 1970s, and the academic discussion of the national systems based on a unique competitive advantage

reached its peak in the 1980s. Indeed, scholars published innumerable studies on the models of national political economies, and based on textbooks on comparative economic systems, courses and entire programmes were taught at universities around the world. To point out just some of the citation classics on East Asian economic models, Johnson published the seminal monograph, *MITI and Japanese Miracle*, in 1982, and the World Bank followed with *The East Asian Miracle* in 1993.

But the 1990s brought deep recession to Japan and Germany, and the neoclassical policy transfer that meant deregulation, privatisation and freedom of trade. Contrary to the expectations of eliminating overregulation, improving efficiency, and increasing the size of a slice of the enlarged pie for all promised by international trade and division of labour based on competitive advantage, Asia instead experienced the financial crisis of 1997-8. As policy advice to rescue the countries, reformers in East Asia received suggestions along the lines of the Washington Consensus to "get the prices right" (also known as the market fundamentalist thesis of getting the state out) during the Washington Consensus mark 1, and when this did not work, to "get the institutions right" during the Washington Consensus mark 2. To the great disappointment of the developers of the parsimonious development and transition models, the output loss in East Asia suggested that the single variable or single set of key determinants (such as getting the prices and institutions right) hardly guaranteed a positive turnaround (W. T. Woo 2004).

Based on this and other recent economic reform experiences in Latin America, Eastern Europe or Central Asia, it seems reasonable to take Hirschman (1986, Ch. 6) as a point of departure and try to complicate the political economy of development. More particularly, what is implied in this paper is that the search for a single variable able to explain the economic development has led to the false arguments on how my variable "trumps" everything else or debates as to whether "my variable can swallow your variable".[1] Yet, one has to be equally careful to avoid falling into the opposite of the single variable approach. That is, one should avoid slipping into another extreme where almost anything counts in the attempt to get a holistic picture of development.

[1] The reader may recognise that there is a link to the orthodox training of economists that tends to ignore social, historical, political, cultural or geographic phenomena (all of which the institutional school and economic geography emphasise) as well as a link to the arguments that there is a need for more interdisciplinary training of social scientists (see Kornai 2007, Kroos 2012, Wallerstein 1996, 2000) to understand the development challenges and figure out the solutions.

For instance, one should be careful of the all-inclusive argument, such as the one put forward by Roy et al. (2012, 26-27), to explain East Asian economic success. On the basis of the success stories of the emerging economies they do not only list different institutional factors from the history of religion, the culture, politics as well as corporate governance, independent technocracy and bureaucracy, but they also add some structural factors, such as geography, a sound financial system, human capital and land reform to the list as success factors that have played an important role in the fast economic growth of East Asian countries. Intuitive as they may sound, there is a danger of falling into the opposite extreme of a parsimonious understanding of development where almost everything is related to the success of the economic policy.

As a middle way between the all-inclusive "everything counts" approach of the sociology of development and parsimonious models of one key (set of) variable of neoclassical economics, this paper follows the attempts to incorporate the economic, political and social spheres into the analysis. While Kang (2006, 6) assesses that the VoC approach offers an ambitious "synthesis" of the major sociology of development approaches that had been developed over half a century, scholars working within this tradition have not stopped there. As shown in Figure 1, Hancké et al. (2007) suggest moving beyond VoC and propose an extension of Hall & Soskice's (2001) original two country ideal types – a comparison and contrast of Liberal Market Economies and Coordinated Market Economies. Nevertheless, even this can be seen as unsatisfactory because it is hardly able to incorporate countries such as Korea into the typology – suggesting that it could be classified together with Italy and Spain under the *Compensating state* type. Since the organised expression of labour interests has not always been allowed in Korea, it is difficult to classify it under *Étatisme*'s type either, even though the close relationship between state and economy make it similar to France in some respects. In this context, Kang's (2006) criticism of the VoC tradition that it has been more successful in integrating the state-centred approach (originating, as mentioned above, from the national economic systems of the 1960s) than it has been in incorporating the insights of the society-centred approach (related to the welfare regime literature) is a point well taken.

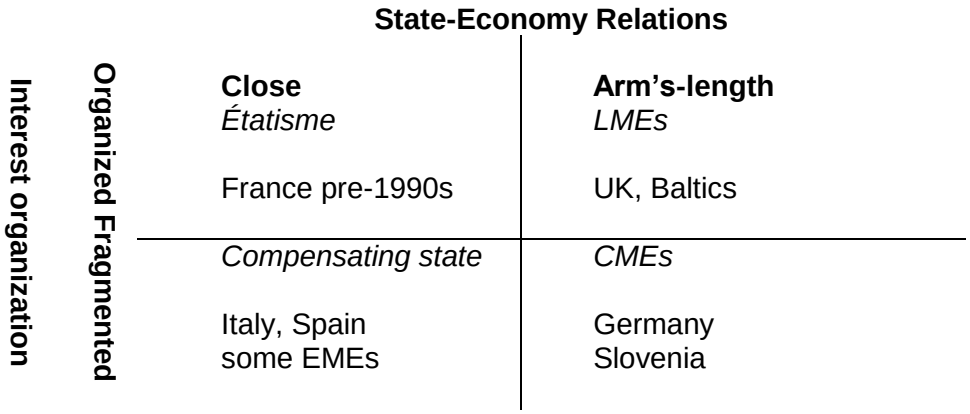

Figure 1. State-economy relations, interest organization, and modes of coordination. Source: Hancké et al. (2007, 25)

To overcome these challenges, alternative VoC approaches have been put forward by Amable (2003) with his five types of capitalism and Baumol et al. (2007) with their four types of capitalism. Although Amable (2003) embeds a system design into the social context and places stronger emphasis on the political dimension (within which context the institutions represent the choice of the dominant social coalition), his five types of VoC (the Anglo-Saxon's market based model, Scandinavian welfare state model, Continental European Rhinish economy model, Southern European Mediterranean model and Asian Meso-Corporatist model) seem to be locked into the cultural background conditions. Although the Baumol et al. (2007, Ch. 4) typology of four types of VoC (state-guided capitalism, oligarchic capitalism, big-firm capitalism and entrepreneurial capitalism) is said to be more flexible and sensitive to the level of development (ibid, 61), it fails to identify any possible role for the political and social dimension as drivers or contributors of institutional change over time.

Therefore, to find a balance between a single variable and multidimensional / multidisciplinary approaches as well as to avoid the limitations of the above mentioned approaches, an attempt is made here to enrich the analytical tradition of VoC by complementing the examination of the Korean political economy to welfare and political regimes. To that end, Soskice's (2007) analytical approach, which incorporates the production regime, the welfare state and political system into the analysis of VoC, is used in this paper for clarifying the Korean developmental welfare capitalism. Hence, the paper is organised into three parts in order to interpret the Korean devel-

opmental welfare capitalism holistically. Starting with an analysis of the Korean political economy we shall first analyse its developmental state. To complement this with the developments in the social and political spheres, we shall then discuss changes in the Korean welfare regime over decades and finally, before drawing conclusions, briefly touch on the changes that have occurred in the political system.

1. South Korean Political Economy

While the tremendous success of East Asian countries' post Second World War development has not gone unnoticed among scholars, policy advisors and makers, the region is often treated as unified and its development model, as homogeneous. The prime example of the latter is the World Bank's miracle report titled *The East Asian Miracle* from 1993 (for concise overviews see also World Bank 1993b and Page 1994a). As a critique of overgeneralization and lack of sensitivity towards country specific nuances of the report, Perkins (1994) argues that *There are at Least Three Models of East Asian Development*. According to him, these three are: "the manufactured export-led state interventionist models of Japan, Korea and Taiwan; the free port service, commerce-dominated model of Singapore and Hong-Kong; and models of those economies rich in natural resources (at least in the beginning) but not in human resources (Indonesia, Malaysia, and Thailand)". In order to understand better the historical background of the sub-type to which Korea belongs, the colonial heritage of the "the manufactured export-led state interventionist model" (also known as the developmental state) will be discussed briefly prior to a more detailed analysis of it central issues.

Unlike many less developed countries that followed Nehru's Indian Consensus model for post-colonial development, Waelbroeck (1998b, 325) argues that the Four Dragons (Hong Kong, the Republic of Korea, Singapore, and Taiwan [China]) followed the Japanese example. This proved to be a good choice and should not be too surprising given the fact that there are three countries in Northeast Asia that formed the core of the Japanese empire in the pre-war period: Japan, Korea and Taiwan. Indeed, as Woo-Cumings (1999a, xi-xii) assesses, "[n]othing succeeds like success, and thus Korea and Taiwan learned lessons and absorbed advanced technologies and capital from Japan, and then embarked on a similar trajectory of light-industrial exporting under multi-year plans, guided by strong state ministries (if less so in Taiwan than

Korea). This gave all three economies a highly neomercantilist, nationalist tendency; in Japan and Korea especially, it meant strong state involvement with and promotion of big economic conglomerates."

Nevertheless, the Japanese colonial past of the success stories of the NIC tends to be forgotten in the mountains of academic publications published about the East Asian miracle in general and about Korea in particular. More precisely, one of the first analyses of Korean economic success by Frank et al. (1975) actually devotes a separate chapter to the economic history of the country since the Second World War but fails to make the connection to its colonial past as anything positive. As with many other scholars discussing Korean development, Frank et al. (ibid, 226-7) note the possible impact of Japanese colonialism only in passing – in the form of the type of industrial relations between paternalistic employers and loyal employees, the industrial structure and development model to be followed and imitated (despite the extremely unpopular colonisation). Instead, the Japanese colonial past is presented as economic dependency and domination – a development trap to be overcome rather than something to be benefited from. It is also understandable, as the aim of Frank et al. is to analyse the influence of the Korean foreign trade regime and therefore the emphasis on the role of export that has dominated the study of Korean economic success since then.

Also, in other publications, the Korean colonial past has been mentioned in passing (see e.g. Cumings 1984; Goodman & Peng 1996, 195-200; Johnson 1987; J. Woo 1991, 66; Holliday 2005; Pirie 2008, 64; and Ramesh 2004, 3) and its impact on the Korean growth model is systematically analysed in very few cases. And in the few cases in which the challenge is accepted a diametrically opposite position is reached. In other words, there is "disagreement … as to whether Japanese colonisation basically distorted or laid down groundwork for development" (Cheng 1990, 140). On the one hand, Eckert (1992) and Kohli (1994, 1997, 1999) argue that despite the brutality of the Japanese colonialism, it was namely this past dependent historical experience that left the imprint of the political economy and allowed Korea to catch up with the developed world in such a short period of time after the Second World War. On the other hand, Chang shows that the colonial past (2006, Ch. 4), or more broadly, the culture (2007, Ch. 9) cannot explain the success of NIC. Given the impossibility of

collecting contrafactual evidence to learn what would have happened if the countries had not had a Japanese colonial past, the controversy is difficult to settle. Nevertheless, what can be studied more closely is the political economy arrangement known as the “developmental state”, which a subgroup of NIC, such as Korea, adopted from Japan and has been implementing quite successfully since the 1960s.

Korea borrowed the developmental state approach to economic development from Japan and implemented it relatively successfully until it was hit by the Asian Financial crisis and serious doubts were raised about her political economy arrangement (sometimes described as “crony capitalism”). Although the authors of the World Bank (1993a) miracle report (see also Page 1994a & 1994b) have attempted to downplay the role of the state in the extraordinary economic progress of East Asia and have tried to emphasise as well as interpret the success story of the East Asian NIC as a confirmation of its neoliberal policy (labelling the actual practices of the region as “market friendly”), the so called “revisionist school” has vehemently criticised the report (see Amsden 1994, Lall 1994, Perkins 1994, Rodrik 1994 and Yanagihara 1994). More specifically, the critics of the miracle report have seriously questioned the selective use and interpretation of data, the lack of attention to initial conditions (education and equality) as well as the total ignorance of any of the countervailing arguments that the area specialists have produced during the decades of research – a practice whose aim seems to be an attempt to downplay the active role of the state in the East Asian (including Korean) political economy of development. While there have been many rounds of debate over the role of the state in the miracle on which literature overviews can be found elsewhere (e.g. Chu 1997), it is clear that the East Asian financial crisis called for the need to rethink the underlying assumptions of the miracle and to formulate a new development paradigm (including the state and the market relationship) for the region (see e.g. Park et al. 2004, W. T. Woo 2004, and Stiglitz & Yusuf 2001).

Irrespective of these academic quarrels over the role of the state in East Asian development (which at times tends to become rather ideological), the theoretical dispute over the applicability of the market and state failures as arguments for and against interventionism in the economy and its development continue (see e.g. Amsden 1992, Wade 1988, Kruger 1974 & 1990, Lall 1994, Rodrik 1995a, 1995b, 1996a,

1996b and Stiglitz 1988, 153-156 & 1989). The strongest argument of the revisionist school in this context seems to be the empirical evidence from (not so) distant economic history. According to Chu (1997, 19) and Chang (2002b, 2003 & 2009, 8), there is hardly a successful case of economic development where state intervention did not have the upper hand. Starting from the industrialisation of England – a crucial case in this respect that was raised by Polanyi (1944 [1957], Ch. 6) – and ending with the NICs' (including Hong Kong and Singapore as the textbook cases of laissez-faire, which have been studied closely by Lam 2000) successful catch-up with industrialised countries, the state actually has played an important role in industrial development. In other words, even in the cases that are widely believed to be examples of laissez-faire economic policy, the visible hand has been complemented by the invisible one. The paradoxical lesson (even if not yet the widespread consensus) from this is that the market needs a strong government (see e.g. Evans et al. 1985, Deyo 1987, Bardhan 1990 and Stiglitz 2001) and an open economy demands a bigger state than a closed one (Rodrik 1998). Pempel (1999, 139) sums up much of the scholarship as well as popular understanding on the role of state in East Asian economic success stories:

> The East Asian states, it is argued, have been successful because governments there have acquired control over a variety of things presumed critical to economic success: they can extract capital; generate and implement national economic plans; manipulate private access to scarce resources; coordinate the efforts of individual businesses; target specific industrial projects; resist political pressures from popular forces, such as consumers and organised labour; insulate their domestic economies from extensive foreign capital penetration; and, most especially, carry through a sustained project of ever-improving productivity, technological sophistication, and increased world market shares.

In this context, it is now hardly questioned that the government strongly intervened in the East Asian post-Second World War development. The close relationship between the government and the market that has been developed in the state interventionist models of Japan, Korea and Taiwan is known as "developmental state". It is a concept that originates from Chalmers Johnson's book *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*[2] and can be seen as a label that attempts

[2] For the "odyssey of a concept" see also Johnson (1999) and for the genealogy of the term see Cumings (1999) and of the idea see Leftwich (1995).

to capture the essence of one of the three ideal types of states[3]. Unlike the "plan ideological" sub-type of the Soviet developmental state (see White 1984), the East Asian is "plan rational". That is, East Asian NIC, which follow this development strategy, believe that their destinies can be changed – miracles can be created or the initial conditions can at least be combined so innovatively that they allow for the design of a tailor-made solution for the situation that is most suitable for the national development needs. This stands in contrast to accepting the destiny and trying to build on the competitive advantage as suggested by Ricardian inspired neoclassical political economy of development (see Srinivasan 1985). But that is not all; it also presupposes a capable government which is why Leftwich (1995, 401) defines developmental states as "states whose politics have concentrated sufficient power, autonomy and capacity at the centre to shape, pursue and encourage the achievement of explicit developmental objectives, whether by establishing and promoting the conditions and direction of economic growth, or by organising it directly, or a varying combination of both."

Speaking of the origin of the developmental state within the history of economic ideas, Fallows (1994, 179) and Leftwich (1995, 401-402) trace the idea back to List (1885 [1996], 175-178) who put forward the idea that to catch-up with advanced nations state intervention in less developed countries is necessary – a very similar idea to what Gerschenkron (1962, Ch. 1) later made famous. However, contrary to the Russian state intervention for military aims, List makes a futuristic argument if one observes the success story of the export oriented countries of mass production in East Asia that materialised approximately a century later. He (1885 [1996], 178) states: "… a perfectly developed manufacturing industry, an important mercantile marine, and foreign trade on a really large scale can only be attained by means of the interposition of the power of the State."

Leftwich (1995, see also 1996) identifies six major components that define the (the model of) developmental state: (i) a determined developmental elite – leadership by determined and relatively incorrupt developmental elites; (ii) the relative autonomy of the state from domestic special interests; (iii) a powerful, competent and insulated

[3] For alternative typologies see White (1984) who identifies state capitalist, intermediate and state socialist; and Evans (1989) who distinguishes between predatory, developmental and other apparatuses of third world states.

economic bureaucracy; (iv) the weak and subordinated civil society; (v) the effective management of non-state economic interest; and (vi) repression, legitimacy and performance. In short, he puts emphasis on politics and state capacity and perhaps not enough on the complicated relationship with big business – a criticism that Leftwich (2001, 152) accepts. Furthermore, as the analysis of the developmental state around these defining features can be found elsewhere (see Clapham 1996) and the different theoretical perspectives on the politics of East Asian development (liberal institutionalism with universalistic policy suggestions; culturalism with emphasis on contingent issues such as culture; and globalism with a focus on geographical and timing factors) are analysed by Zhang (2003), the discussion to follow will take Johnson's understanding of the defining features of the developmental state as the basis. Actually, he has put forward at least two conceptualisations of the developmental state. In the 1987 paper entitled *Political institutions and economic performance* he lists and discusses seven key issues of the capitalist developmental state: financial control; labour relations; autonomy of the economic bureaucracy; autonomy of the state from business interests; balancing incentives with commands in administrative guidance; large business conglomerates; and foreign capital. More than a decade later, however, he (1999, 46-60) narrows them down to four in the reflections on the basis of Oyama Kosuke's review of his seminal book on MITI and Japanese political economy. Since he regards the latter as the best conceptualisation of the defining issues of the developmental state, it is also taken as the starting point of the analysis of the Korean case in the sections to follow. These four fundamental issues related to the developmental state are: (i) industrial policy versus the market, (ii) democracy and the developmental state, (iii) the time frame, and (iv) the government-business relationship. All together these themes characterise the Korean developmental state and economy. Therefore, we shall discuss them one by one.

1.1. Industrial Policy *versus* the Market

Existing literature reviews on state intervention (Block 1994, Chang 2002a), regulation (Chang 1997) and industrial policy (Chang 1994 & 2009, Kosacoff & Ramos 1999, Pack & Saggi 2006, Rodrik 1995b, Shapiro & Taylor 1990, and Shapiro 2007) as well as the seminal original contributions that have been made about these issues within the East Asian development controversy (see e.g. Amsden 1989 & 1992, Amsden & Chu 2003, Barrett & Chin 1987, Campos & Root 1996, Chang 1993 &

2006, Chu 1997, Fishlow et al. 1994, Johnson 1982, 1984, 1987 & 1999, E. M. Kim 1997, Krugman 1994a, Lall 1994, Nolan & Pack 2003, Park et al. 2004, Page 1994a & 1994b, Shapiro 2007, Wade 1990, and World Bank 1993a, esp. Ch. 6) indicate that the heated debate about the role of the state and the market in the East Asian economic success story in general and the industrial policy in the Korean one in particular has been active for a while. Despite the length and many rounds of debate (with their reflections on the changes in the international economic environment), the complicated relationship between government and businesses within the East Asian economic development in general and the Korean developmental state approach to catching up in particular continues to be a source of conflicting conclusions. For instance, the issues related to the possibility of moral hazard, the economic impact of state interventions in picking winners instead of protecting losers; getting interventions, structure and prices right (or wrong); engaging in import substitution and/or export promotion are hardly less controversial after all these years of debate.[4]

To start with, it has to be made clear what is meant by "industrial policy" in this context. In the above mentioned literature on the NIC development experience, it does "not mean any policy that affects industry but a very particular type of policy that affects industries. It is what is commonly known as "selective industrial policy" or "targeting" – namely, a policy that deliberately favours particular industries over others, against market signals, usually (but not necessarily) to enhance efficiency and promote productivity growth" (Chang 2009, 2). As for the "market", it is understood in this

[4] This is clearly an arbitrary selection of a much larger number of issues that have been debated on within the East Asian industrial policy debate. For instance, Chang (2009, 3-4) lists the following topics:

> (i) coordination of complementary investments (the so-called Big Push); (ii) coordination of competing investments through entry regulation, "investment cartels", and (in declining industries) negotiated capacity cuts; (iii) policies to ensure scale economies (e.g., licensing conditional upon production scale, emphasis on the infant industries starting to export from early on, state-mediated mergers and acquisitions); (iv) regulation of technology imports (e.g., screening for overly obsolete technologies, cap on technology licensing royalties); (v) regulation of foreign direct investment (e.g., entry and ownership restrictions, local contents requirement, technology transfer requirements, export requirements); (vi) mandatory worker training for firms above a certain size, in order to resolve the collective action problem in the supply of skilled workers due to the possibility of "poaching"; (vii) the state acting as a venture capitalist and incubating high-tech firms; (viii) export promotion (e.g., export subsidies, export loan guarantees, marketing help from the state trading agency); (ix) government allocation of foreign exchanges, with top priority going to capital goods imports (especially for export industries) and bottom priority, to luxury consumption good imports.

context in an oversimplified way[5] as the opposite to state intervention or bureaucratic coordination (for details see Kornai 1984).

On the one hand, the supporters of state intervention and believers of the positive impact of the industrial policy in East Asian NIC, such as Korea, argue that the active role played by the state in the late industrialisation is central to their economic success stories. Among these are two slightly different schools of thought that have been advancing this argument: the Weberian (institutionalist) and the neo-Marxist (structuralist / dependent development) perspective. Without going into details here, the Weberian school basically follows Johnson's lead (see e.g. Johnson 1982 and 1987 as well as Page 1994a, 620) and emphasises the role of efficient bureaucracy (such as MITI in the Japanese case). However, the world system theorists of dependent development hold that the "artificial" development of the semi-periphery locks these countries into a dependent position and makes them vulnerable in the world economy, which is controlled by core countries' capital, technology, markets and transnational companies (see e.g. Arrighi et al. 2003).

There are problems with both perspectives. On the one hand, the problem with the good governance argument is that it depicts the state as a homogeneous body of policymaking and implementation which lacks any internal conflict and assumes that the developmental state polices lead to economic growth without actually showing the causality, according to Lie (1990).[6] On the other hand, the problem with the world system theorists is that they fail to see that some developing countries "have been able to beat the system" and have climbed the ladder because they have been able to take advantage of their structural factors, such as size, or institutional advantages, such as human capital, according to Amsden (2003, 37). Furthermore, Deyo (1987, 17-18) summarises the contrafactual evidence from East Asian NIC in the following:

> East Asian industrialisation departs from the expectations of those writers in the dependency tradition who argue that external economic dependency is associated with long-run economic stagnation and economic inequality, loss of economic autonomy in economic restructuring and the formation of development strategy, and a weakness of

[5] Chang (2002a, 544), for instance, states that "defining a free market is at the deepest level a pointless exercise because no market is in the end 'free' as all markets have some state regulations on who can participate in which markets and on what terms."

[6] The (lack of evidence for) causality between industrial policy and economic development has given birth to a heated debate – see World Bank (1993 Ch. 6) and Lall (1994, 650-652) as well as Chang (2009) and Pack & Saggi (2006).

> domestic states. Rather, the East Asian NICs present a pattern not only of continued high growth rates but also of relatively equitable development, a continuing ability to alter domestic economic structures and world market position to adjust to changing economic circumstances and an enhanced rather than a diminished state power to mobilise and deploy domestic economic resources.

Nevertheless, the supporters of the idea that industrial policy has hardly made any positive impact on East Asian development argue that its success stories should be associated with market friendly policies instead. This has also been the official line of the World Bank (see World Bank 1993a; and Page 1994a & 1994b), and it relates to the neoclassical school's traditional interpretation of industrial policy as a source of market distortion (see Bhagwati 1982, Kruger 1974 & 1990, Nolan & Pack 2003 and Pack & Saggi 2006). Again, drawing on the East Asian economic success story in general and the Korean one in particular, E. M. Kim (1997, 11) problematises the position of the neoclassical school by pointing out that

> (1) it neglected the role of the state as having an independent and leading role in the economy; (2) it assumed the private sector in Korea to be not very different from the "rational," "free" enterprises found in the West, which tend to work in relatively free markets; and (3) it ignored structural obstacles that may hinder economic development, such as [an] unreceptive international market and MNCs, and [the] destruction of [the] economy caused by war, and so on.

There is also a milder version of the market-cantered school that would accept state intervention if there were negative externalities (Stiglitz 1988, 153-156 & 1989), if the harm arising from government failures were smaller than from market failures (Fishlow 1990) or if it were needed for the promotion of market institutions (Datta-Chaudhuri 1990 & Stiglitz 2001). This middle-ground position does not question the idea of state intervention on technical grounds (as the proper neoclassical school does) or dispute it on ideological positions (as some representatives of the Austrian School of Economics do). Instead, it takes issue with the quality of state intervention. Indeed, Bardhan (1990, 4-5) assesses in the editorial of the *Symposium on the State and Economic Development*:

> In much of the neoclassical literature the emphasis is on the *extent* of state intervention; mostly, of course, on the harmful effects of that intervention. As a matter of fact, almost all states in developing countries, successful or otherwise, are interventionist, and the important question is not really about the extent but the quality of that intervention. We need to understand why the *quality* of intervention is so different in the

> different states, even when those states command similar instruments of intervention and sometimes display similar extents of intervention…

Within this context it has been puzzling for the development scholars such as Rodrik (1996a, 19-21) to understand "How Did East Asian Countries Manage to Intervene without Inviting Rent Seeking?" in general and "Why did trade protection, industrial policy, and subsidised credit work in these countries [Korea and Taiwan] when it failed most everywhere else?" in particular. His honest answer to these questions in the review article of the *Journal of Economic Literature* is that "we do not really know" (ibid, 19). His best guess is that there must have been something special about these countries policy makers' ability to discipline their private and public actors – an acknowledgement that begs rather than answers the questions. That means Rodrik is forced to admit as an answer to his own follow-up question "where this ability came from and whether it can be replicated in other settings remain a mystery" (ibid).
Nonetheless, this does not prevent him from suggesting that development states such as Korea were special in their ability to identify and solve successfully the "co-ordination failures". According to Rodrik (1996b), these include a form of market failures that middle-income countries, which are locked into low-wage and/or low-tech equilibrium, typically face. More specifically, without government subsidy to solve the private sector's lack of interest in undertaking activities that need specialised inputs, the NIC would not have produced miracles. Rather than getting the prices or institutions right or wrong, they got the "interventions right" by "coordinating and encouraging private (and public) investments with a high degree of linkages within the modern sector" (1995, 97). In other words, what we have here is a kind of merging of the Krugmanian "extraordinary mobilisation of resources" (see Krugman 1994a, 78) and Hirschmanian ideas of forward and backward linkages (see Hirschman 1986, Ch. 3) with a growing understanding of the critical role of technology in economic development (see Freeman 1994 for the literature overview).

Nonetheless, this does not explain how developmental states like Korea managed to intervene successfully when others failed – a puzzle that Rodrik himself highlights.[7]

[7] Actually Rodrik (1996a, 20) also adds to the above mentioned possible reasons "the special initial conditions". What he means by this is not the colonial past that enabled Korean leaders to intervene successfully, rather the much better educated labour force (given its income level) as well as the equal distribution of wealth and income (around 1960) which may explain the overall economic success story but not the successful state intervention. For more details about his position on the role of Korean

Probably, the most compelling argument offered (at least before the East Asian financial crisis) originates from Westphal (1990, 44), who explains that Korean industrial policy consists of two interrelated parts that relate to the two objectives that Korean economic policy has set for itself since the 1960s: encourage exports and promote infant industries. These components should be acknowledged but not confused with one-another. As described in detail by Westphal, the export promotion, which has used free trade as its primary "incentive scheme", is essentially a policy neutral tool because all it did was to abandon the idea of imposing tariffs and import quotas on the importation of capital and intermediate inputs for sectors and goods where a competitive advantage was detected. However, the infant industry promotion, with the aim of (re)creating comparative advantages, has used protection as its dominant incentive and logically has not been policy neutral. Furthermore, according to Westphal (ibid, 47) it is also important to add that the protection of infant industries in Korea has almost always applied only to non-export sales.

Based on all this, he (ibid, 56-57) offers five lessons from Korean industrial policy: (i) the aim of state intervention has to be the attainment of international competitiveness or self-sufficiency (in the given geo-political context); (ii) policy makers should seek advice and collect relevant information to judge the potential for exploiting or developing the competitive advantage; (iii) the industry specific strategies should not be firmly fixed and followed regardless of the experience and knowledge acquired during the implementation; (iv) the number of industries targeted at any one time should be greatly limited in order not to spread technical and entrepreneurial talent; and (v) the state should not concentrate its intervention efforts on the areas where the country has a competitive advantage because of the possibility of being excessively crowded out in international competition.

In short, Korean industrial policy found a way to enable the visible and invisible hand to cooperate closely, making it incorrect to emphasise one over the other. Rather one should try to understand the way it produced economic progress to catch up. As many nuances in the industrial policy implementation overlap with the relations with big business, we shall suspend the discussion here and postpone it for the upcoming sections. Hopefully, together with this analysis, one gets a better idea of how exactly

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education and equality in economic development see Rodrik (1994 & 1996a, 20-21) as well as Alesina & Rodrik (1994),

Korea managed to implement the industrial policy and the extent to which its effect(s) have been positive or distortionary – issues that remain most contested.

1.2. Democracy and the Developmental State

A further characteristic of the developmental state relates to politics and the relationship of the political regime to democracy. While some commentators have associated Johnson's ideas of the developmental state with (soft) authoritarianism (see Benczes 2000 and Gills 1996, 667 respectively) and some others like Rodrik (1996a, 23) have expressed uneasy feelings about speculating that authoritarianism may have been involved in the East Asian ability to intervene successfully (noting that "there are too many mismanaged dictatorships around the world to take the hypothesis seriously"), the complicated relationship between the developmental state and democracy cannot be denied. Although Johnson warns against the dangers of a non-democratic government (1987, 143) and refuses to accept that there is "any necessary connection between authoritarianism and the developmental state," he also acknowledges "that authoritarianism can sometimes inadvertently solve the main political problem of economic development using market forces – namely how to mobilise the overwhelming majority of the population to work and sacrifice for developmental projects" (1999, 52). His Weberian argument is that in a truly developmental state power is held not through cohesive means but by legitimation, typically enjoyed by revolutionaries.[8]

On the one hand, it is true that the East Asian fast growing NIC were not democratic when they concentrated on economic catch-up. On the other hand, it is also correct to say that some of them have become democratic during the process. Indeed, the Korean economy was set on the trajectory of recovery, development and success by the military coup led by General Park Chung Hee on May 16, 1961. It was this authoritarian military regime that directed the nation to "The Road toward Economic Self-Sufficiency and Prosperity" and produced the fastest growing economy (with an average of 8.7% present annual growth) in the world between 1980 and 1991 (E. M. Kim 1997, 2). However, the paradox here is that the very economic success of the

[8] Reflecting on the Japanese case, it would probably be more appropriate to speak of legitimisation by charismatic leadership – as enjoyed, for instance, by Lenin or Castro. Speaking of the bureaucrats it would be more appropriate to speak of goal-rational legitimisation, which is also known as teleological rule (see Konrad and Szelenyi 1979).

Korean developmental state also gave birth to democratisation. Indeed, since the mid-1980s Korea has seriously been on the road to democratisation, ending the authoritarian regime and bringing a democratic transition to the country in 1987. E. M. Kim's analysis of the relationship between big business and the state between 1960 and 1990 demonstrates in detail how the labour movement (both legal and underground) grew and "became a formidable voice for democratisation" (ibid, 4) in the Korean public-private-partnership where big business conglomerates and government repressed labour and excluded them from enjoying the fruits of economic growth for decades. It shows that despite the success of big business in delaying the development of political freedoms in Korea and Taiwan, eventually it happened. In short, "late democratisation followed late industrialisation" (Thompson 1996, 643).

This description matches the expectations of the modernisation theory advanced most prominently by Lipset (1959). To put it simply, the theory argues that countries' political and economic systems go hand in hand – for instance, a liberal democracy needs free markets. Once a country's socio-economic development reaches a certain level, it requires more skilled labour, which leads to expansion of education and development of critical thinking. Before long, demands for political liberalisation and democratisation are voiced. While many had written the modernisation theory off due to a lack of any serious empirical validity, the events in Eastern Europe, Former Soviet Union as well as in some NIC caused it to resurface. Indeed, Korean socio-economic development since the 1960s and consequent democratic changes in the political sphere since the 1980s match the theory: economic growth has led to social mobilisation associated with modernisation – growth of urbanisation, mass communication, expansion of education and the creation of new social classes demanding political participation. But what has been missing in the classical modernisation theory according to Thompson (1996, 627) is precisely the role played by the developmental state in the less developed countries that start industrialisation under non-democratic political leadership. Therefore, it makes sense to add this component to the modernisation theory, while at the same time realising that the developmental state's relationship to democracy is not static but dynamic. As E. M. Kim (1997) stresses – there is a need to understand the dynamic and changing nature of the state, business, and one may add, labour relations of the Korean political economy as a source of democratisation. That is, one needs to recognise that there has been

the evolution from the comprehensive to the limited developmental state in Korea. It may be politically difficult to accept, and it can be easily misinterpreted, but the non-democratic developmental state may be necessary to serve as a catalyst for modernisation and democratisation.[9]

1.3. The Time Frame

Oyama takes issue with Johnson that the description and analysis of Japan as a developmental state in the chosen time frame between 1925 and 1975 is arbitrary – suggesting that if another period were used, a different conclusion could be reached. Indeed, Johnson (1999, 54) accepts that the chosen time frame is somewhat arbitrary, but also defends himself on the grounds that "[t]he mid-1970s saw the end of the era of Japan's catching up and the beginning of its uneasy tenure as an economic superpower, which is why my book ends there." There are two important issues that emerge from this exchange of ideas. As mentioned above, the developmental state is not a static formation but a dynamic one. It changes or evolves along the changing geopolitical circumstances and international economic relations as explained on the basis of the Korean example by E. M. Kim (1997). In addition to the exceptional post-Second World War era that brought more state intervention to many countries, there is the question of transferability of the policy outside East Asia, which reflects the controversial role of initial conditions in socio-economic development.

Korean development has been described in sequence by a number of scholars, but Gereffi has created a research programme out of it. He (1989 & 1994; see also Gereffi & Wyman 1990) has analysed Korea in comparison to Latin American countries and diagrammed its developmental path as shown in Figure 2. According to this, the era of the Korean colonial past is described as a primary commodity export, and the 1950's introduced the era of primary import substitution industrialisation (ISI) for consumer goods and attempts to take advantage of land surplus (in addition to the struggle to survive with the help of international aid). The 1960's initiated the era of

[9] India as a counterfactual to Korea in this respect is quite telling. While some scholars like E. M. Kim (1997, 217) argue that "it is not clear whether more political freedom and democracy in the initial phase of economic development would have occurred at a slower pace" in Korea, it can be problematised on the basis of India that chose a democratic development political system but has not been developing anywhere as quickly as the Four Dragons in Northeast Asia (see Herring 1999 and Currie 1996 for details of the Indian case with respect to developmental state and democracy).

primary export orientation industrialisation (EOI) that tried to take advantage of unskilled labour surplus was introduced in Korea; the 1970's era added increased utilisation of capital as well as the selective use of (secondary) ISI; and the 1980's brought EOI diversification and emphasis on technology-based production as well as liberalisation and democratisation. The 1990's brought the East Asian financial crisis and IMF intervention together with the structural adjustment programme to liberalise further (see Gills 1996). Last but not least, the on-going 2000s have brought globalisation as well as the global financial and economic crises which have hit the export sectors badly and wiped out1.63 million jobs (Son & San 2009, 23). According to E. M. Kim (1997), all these policy amendments resulted in a fundamental change from a "comprehensive developmental state" to a "limited developmental state" by the end of 1980 when democratisation brought an end to an authoritarian government. Although there are some who have declared the developmental state dead (Fine 1999, Deen 2011), the majority of the scholars who have contemplated its future in the wake of the financial crisis (e.g. Holliday 2005) or in the context of globalisation (e.g. Shin 2005) have found for different reasons that the spread of capitalism demands even stronger government involvement.

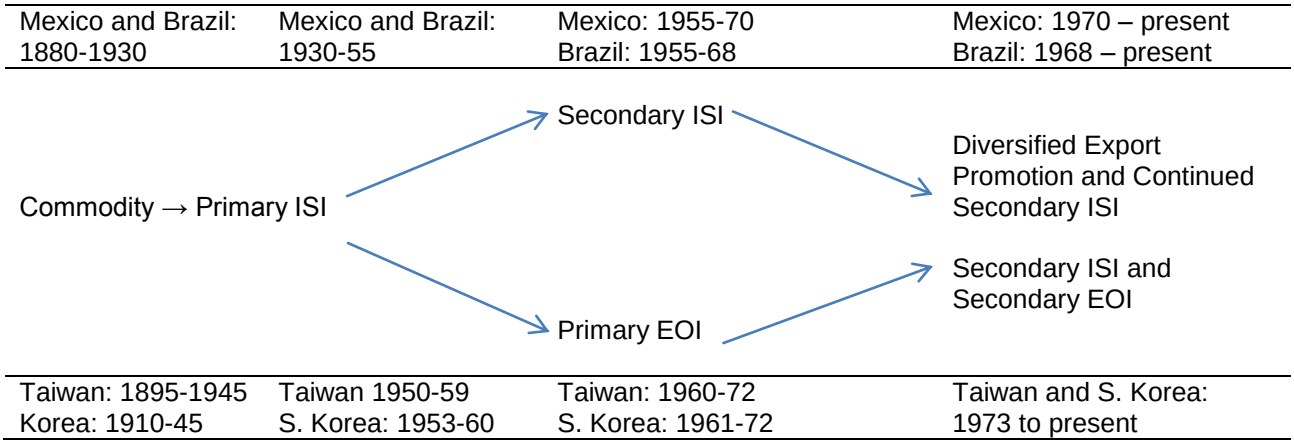

Figure 2. Paths of Industrialisation in Latin America and East Asia: Commonalities, Divergence, and Convergence.
Source: Gereffi (1989, 517)

Instead of making an argument for getting the prices, institutions or interventions right, Gereffi as well as Amsden and Chu make the argument for "getting the structure 'right'". In other words, they explain how latecomers in modernisation and economic development upscale into more technologically complex industries and com-

mercially demanding services. While Gereffi (1994, 222-224) explains on the basis of historical evidence that export oriented countries in East Asia have gone through progressive sophistication of their economies – a process that resembles climbing the ladder starting from primary commodity export, export-processing zones, competent supply subcontracting, original equipment manufacturing, and as the final stage, original brand-name manufacturing; Amsden and Chu (2003) make a late structuralist argument. Contrary to neoclassical economics' understanding of the structural change in developing countries (see Syrquin 1988), the late structuralist argument emphasises the change in the economy as a whole during the country's journey different stages of development (see Dutt & Ros 2003 and Gibson 2003), which provides an explanation for the developmental states' conscious wish, and in some cases such as Korea, the ability to alter the structure of the economy.

The above mentioned structuralist argument resembles in spirit Rostow's (1960) *The Stages of Economic Growth*. Although Rostow's contribution to the economics of development is not perhaps taken as seriously now as it was prior to the triumph of neoclassical economics, one has to admit that retrospectively the post-Second World War developments in NIC are not too far from the sequence laid down in his theory along the following milestones: the traditional society, the preconditions for take-off, the take-off, the drive to maturity and the age of high mass-consumption. And despite the infrequent mention of his name in the contemporary literature on NIC catch-up process, the logical description of Korean development in stages, presidential regimes or decades is still rather common. This is not a coincidence as Rostow actually appears to be behind the Korean development model. More precisely, Natsios (2012) refers to an important upcoming book under the title "The Secret Successes of USAID" by Michael Pillsbury on the basis of recently declassified CIA cables. According to these sources, Rostow, as a senior Advisor to Kennedy and later to Johnson, had just finished the above mentioned book, and his ideas formed the theoretical foundation for the tied aid for General Park Chung-hee who had assumed the presidency in 1961 and who, according to Natsios, is said to have complained shortly afterwards to the CIA that USAID economists had taken over the running of the country.

The politics of tied aid relates to the geo-political environment of Korea at the time of the economic catch-up process. In addition to the realisation that the relationship between state, business and society is not constant or static but in a permanent state of change and that there may be lack or scarcity of political commitment, one needs to understand that the circumstances within which the East Asian developmental states managed to catch up with the developed economies were exceptional and may not be replicable elsewhere. Indeed, one has to take into account the outcomes of the Korean War and the Cold War more generally – the military threat from North Korea and possible Soviet expansion as well as the US military presence, political support, economic assistance and access to its markets – to understand the conditions under which the Korean developmental state managed to catch up with developed countries economically. Furthermore, the unique historical conditions in the international political economy during Korea's catch-up stage allow one to cast doubt on the transferability of its developmental state policy elsewhere. As Pirie (2008, 75) argues in his monograph on the Korean developmental state:

> If there is a central theme to the analysis of the Korean developmental state offered within this thesis[,] it is that the project of state-led industrialisation was a product of, and its success was dependent on the existence of, a complex confluence of circumstances. It is impossible to understand why Korea exhibited such economic dynamism without understanding Korean history, the nature of post-war global political/economic structures, and the particular position Korea occupied within these structures. Such an understanding highlights two things. First, it exposes the shortcomings of those theorists who argue that it is possible for other states to replicate the Korean experience by simply pursuing the 'correct' policies. Second, and more importantly … it serves to highlight the essentially time-bound nature of the Korean state-led development project. Global industrial/economic and political structures are by their very nature dynamic, not ossified and static.

1.4. Government-Business Relationship

There is hardly a component in the developmental state structure that is more controversial than the relationship between government and big business. Although Johnson (1999, 56) regards government-business relationships the most important aspect of the developmental state, he adds that "[t]he exact nature and terms of the internal organisation of "Japan, Inc." remain obscure" (ibid, 59). This observation can easily be extended to Korea as her development strategies were largely patterned if not copied from Japan, which functioned as an exemplar for economic progress and

catch-up with the West, as mentioned above. Although the corporatist political-economy arrangements can be found also in Western market economies (see e.g. Katzenstein 1984 & 1985), it seems that what Korea has copied from Japan with respect to the business relations is difficult for Westerners to comprehend within the dichotomous conceptual models of public-private, state-civilian, partisan-nonpartisan, formal-informal, official-nonofficial, governmental-market, legal-illegal, regulated-customary and/or procedural-substantial that we have been socialised to view appropriate government-business relationships without the risk of corruption or rent-seeking and hence, welfare loss.

This contrast between Western and East Asian government-business relationships' traditions is crucial. E. M. Kim (1997, Ch. 8) and Ahn (2001, 425-428) describe the *Chaebols*[10] as the central success factor in Korea's EOI. The government used these big business conglomerates for state-led industrialisation in an increasing manner until the boundaries of the two became rather blurred. First, in the 1960's government intervention was automatic and sector neutral as long as they engaged in export activities (see also the discussion on industrial policy above). In the 1970's, the government introduced and implemented seven specific industry promotion acts which led to the development of the heavy and chemical industries in order to upgrade the economic structure, prepare for the exploitation of economies of scale, take advantage of private R&D capacities and build up national security. To achieve these goals, Korean policy makers seem to have used primarily capacity building[11] – taking advantage of the commercial banks, in which the government was a major shareholder or special purpose banks for the distribution of subsidised and unlimited credit. Furthermore, these (almost unrestricted) credit lines were substituted with "preferential interest rates, foreign loans, tax credits, accelerated depreciation allowances and tax holidays" (ibid, 426). According to E. M. Kim (1997), the next step in industrialisation, for which *Chaebols* were used, was to take up the technologically complex industrial projects through imitation and/or innovation. This brought ambitious export targets to be met within the planned time frame. As a result of all this, the Korean

[10] The Korean conglomerate known as *Chaebol* is defined as "a business group which consists of varied corporate enterprises engaged in diversified business areas, and typically owned and managed by one or a few interrelated families" (Ahn 2001, 441).

[11] McDonnell and Elmore (1987) identify five possible mechanisms of intervention – mandates (rules), inducements (money / procurement), capacity-building (money / investments) and system-changing (authority).

economy concentrated considerably: while the top 10 *Chaebols*' share in its economy made up 5.1% in 1973, it increased to 22.7% by 1989 and in the case of the top 30, from 9.8% to 29.6% (Ahn 2001, 426).

It is important to realise that the concentration of a substantial proportion of the Korean economy in *Chaebols* happened within the above described industrial policy context over decades – starting from the absorption of "excess labour" to the development of the absorptive capacity of foreign technology. In other words, following the Japanese model, the Korean government was deeply engaged in the process of promoting industrial development. To achieve its aims, it "blurred the line between industrial and trade policy", according to Ahn (ibid). This, together with the combination of inward and outward oriented polices of import substitution and export promotion, has puzzled some of the most distinguished scholars of development economics like Kruger and Krugman.

Kruger has been forced to change her view on Korea more than once over time. First in 1980, she argues that economic success of countries like Korea was a result of export promotion rather than import substitution polices. Moreover, she states in this connection that "it seems clear that export performance is a function in a large part of governmental policies" (Kruger 1980, 289). In 1993 she adds that: "To be sure, the Korean economy has not been characterised and is not characterised by laissez-faire. But in contrast to the over-controlled, overregulated, highly distorted economies …, the Korean economy has been characterised by diminishing intervention in most spheres of economic activity, and the degree of distortion is considerably smaller" (Kruger 1993, 30). In 1995 she admits that the Korean government was heavily involved in steel, heavy chemicals and car industries, but contrary to her previous positions, she simply claims that these investments were not successful. Rather than seeing the government intervention as the cause of the extraordinary results, she now interprets Korean success as being due to hard work combined with a sense of national danger or destiny (Kruger 1995, 40). And then in 1998 she returns to the orthodox position and states that "by the early 1960s a few then-developing countries – most notably Korea, Taiwan, Hong Kong and Singapore – had abandoned import substitution and adopted outer-oriented trade strategies. The results were spectacularly rapid growth." (Kruger 1998, 1514)

Krugman (1994a) has interpreted the East Asian economic development as a result of input-driven growth which owes much of its success to the mobilisation of vast amounts of labour and capital which makes the miracle a "myth". Although he (1994b, 153) has advocated that also the US should identify a handful of strategic sectors such as "high technology" for state support, he is better known for his post-factum position on the reasons for the East Asian financial crisis, which claims that it was only a matter of time before the practice of administratively picking the winners produced painful results. According to this line of reasoning, the negative side effects of state intervention had always been part of the developmental state package in the form of bad debts (see Lim 1999), but by the end of the millennium they spiralled into systematic crisis. As Krugman (1998, 74) states:

> By now the outline of how Asia fell apart is pretty familiar. At least in part, the region's downfall was a punishment for its sins. We all know what we should have known even during the boom years: that there was a dark underside to "Asian Values," that the success of too many Asian Businessmen depended less on what they know than on whom they know. Crony capitalism meant, in particular, that dubious investments – unneeded office blocks outside Bangkok, ego-driven diversification by Korean *Chaebols* – were cheerfully funded by local banks, as long as the borrower had the right government connections.

Despite the decades of sustained economic growth that the Korean developmental state had produced, the country was heavily hit by the East Asian financial crisis. As a result, Korea had to negotiate with the IMF and its international partners one of the largest bailouts ever (Pallack 1997, Ahn 2001, 420, Foreign Policy 2008). This meant that Korea had to accept the structural adjustment programme including the liberalisation and deregulation polices – to negotiate the neoliberal paradigm as documented in detail by Pirie (2008, Ch. 7-9) and criticised by Crotty & Lee (2001a, 2001b, 2006). Nevertheless, one should be careful about interpreting that the crisis and the neoliberal policy transfers have changed the close relations between state and big business in Korea. As Woo-Cumings (1999a, x) warns, we should be critical of the mood changes towards the East Asian Miracle in the context where nothing fundamental has actually changed – "[t]he problems of corruption and lack of transparency in Southeast Asia and financial instability in the massively leveraged Korean corporate sector have long been understood and well documented". Lee (2002) goes even further to argue that the old (informal) rules of the game will not end with the introduc-

tion of new (formal) regulations (lack of which was assumed to be the underlying reason for the East Asian financial crisis for those who did not accept the speculation argument). For him there is only one solution: one has to change the social relations underlying the political intervention together with getting the state out. For others, the vulnerability of the Korean development model has become apparent only recently in the context of the global financial and economic crises. And now that a growing number of scholars (see e.g. Bugra & Agartan 2007, Joerges et al. 2005, Webster et al. 2009, and Deyo 2012) realise that Polanyi (1944 [1957]) was correct about the contradiction of capitalism – commodification in the form of the deepening of markets to the spheres of life traditionally not controlled by it equals the breeding of insecurity – it makes sense to examine more closely the Korean social model.

2. South Korean Welfare Model

Welfare state and regime literature discusses the macro-sociological and social policy dimensions of contemporary political economies from a comparative perspective. While the comparative analysis of welfare states and regimes goes back to the fifties (see Briggs 1961, Holmwood 2000, and Titmuss 1972 [1987]), it really exploded with the publication of Esping-Andersen's (1990) book entitled *Three Worlds of Welfare Capitalism*.[12] Based on the comparative typology of welfare states in Western societies, Esping-Andersen identified along the lines of the most important political ideologies in the West the social democratic, liberal and conservative/corporatist models. Although the typology was initially limited to Western countries, the idea of classifying welfare systems into typologies has quickly spread beyond Western countries as the overviews of welfare state regime literature (Arts & Gelissen 2002, Pierson 2006) as well as its recent developments and new directions clearly indicate (Castles et al. 2010 and Ferragina & Seeleib-Kaiser 2011).

Within this literature and research tradition, a growing number of scholars of East Asian welfare regimes have realised and criticised the Euro-centric conceptualisation of welfare regimes and their typologies (see e.g. Y. M. Kim 2005). More specifically, researchers attempting to understand the East Asian welfare systems have common-

[12] For an overview of how the "welfare modelling business" has become an entrance branch of academic industry since the publication of the *Three Worlds of Welfare Capitalism* see Abrahamson (1999). For an alternative approach to that of Esping-Andersen's see Headey et al. (1999).

ly argued that the region's social sector does not fit into any of the Esping-Andersen's ideal types. While Esping-Andersen (1997, 179) has responded by warning that "any attempt at labelling the Japanese welfare state is premature since it has not yet sunk its roots, institutionally speaking" and hence has tried to solve the puzzle for the time being by proposing a hybrid model: placing Japan between Europe and America, many others have argued for the extension of the typology by adding the East Asian ideal type. But even this has not satisfied some as there is an on-going debate over the issue as to whether the East Asian welfare regimes can be grouped into one welfare regime subtype or not. Understandably, in order for the typology to make sense, there cannot be too many classes. Yet to put all East Asian welfare systems into one category does injustice to the country specific differences and nuances. One solution that has been suggested is to differentiate between Northeast and Southeast Asian welfare regimes (Tang 2000, Ramesh 2004, Holliday 2005 and Wilding 2008). As a reaction to this, however, there is also a recurrent interest in emphasising the commonalities over differences and identifying the common attributes of the East Asian welfare model (H-J. Kwon 1999, 83-84; White & Goodman 1998, 17-18; Abrahamson 2011).

Richness of terminology to describe the East Asian welfare model in general and the Korean one in particular suggest that there is little consensus about the distinctive features of its nature and/or the fact that the object of analysis has been undergoing fast changes. For instance, the nature of the East Asian welfare model has been described under a large variety of labels – from Oikonomic (C. Jones 1990), Confucian (C. Jones 1993), conservative (Gottfried & O'Reilly 2002), developmental welfare system (White & Goodman, 1998, 15), 'hybrid' (Esping-Andersen 1997), informal security (Wood & Gough 2006), informal care regime (Abrahamson 2011, 16) Japan-focused (Goodman & Peng 1996, 216), Japanese-style (Peng 2008, 178), oriental (White and Goodman, 1998), Pacific (Castells 1992) to tiger social policy and welfare capitalism (Holliday & Wilding 2003), and most recently as welfare developmentalism (Kwon 2010). Within this "politics of development policy labelling" (Wood 1985), the Korean welfare system, as a unique social model, has been labelled as developmental welfare state (Lee & Ku 2007, and Lee et al. 2011), minimalist welfare state (Lee et al. 2011), productive welfare model (Ramesh et al. 2004), productivist welfare capitalism (PWC) (Holliday 2000, 2005), productivist social policy (Kwon & Holliday

2007), (emerging) productivist (Wood & Gough 2006, 1706), productivist regime (Gough 2004), development-universalist (Ku with Finer 2007, 123) or most recently as weak-productive-protective and as productive + employment protection type (Hudson & Kühner 2011, 50-54), productive welfare under Kim Dae-jung government, participatory welfare under Roh Moo-hyun government (Chan 2006) or as a result of democratic government policies as the active welfare (Lee et al. 2011).

All this indicates that Korean socio-economic model has been understood as a unique type that has prioritised economic developmental goals over social. Therefore, observers often argue that Korea as well as Taiwan and Hong Kong have been able to grow so fast and catch up with the developing countries so quickly because they saved on social costs. Most explicitly, Deyo (1992) and Holliday (2000, 2005) argue that East Asian NIC have subordinated their social sector to the economy and this very characteristic differentiates them from all other welfare regimes outside or inside East Asia, making them similar to few welfare states like Taiwan. As Holliday (2005) states:

> Beginning with policy, PWC is characterised by a broad thrust that prioritises economic growth, and makes this the fundamental orientation of policy makers not only across economic sectors but also across social and cultural sectors. Policy spheres that tend to be thought of as straddling the economic/social divide are therefore read in economic rather than social terms. One instance is relations between capital and labour, which are skewed as much as possible towards the needs of capital, with the result that the power of organised labour is severely limited.
>
> …
>
> In PWC, funding for social policy is generally low so as not to crowd out entrepreneurial and productive activity. However, because social policy is read in economic terms, and some elements are held to make a positive contribution to growth, funding is not pared back completely. Indeed, some social policy spheres may be characterised by quite significant investment, designed to provide the society as a whole with a competitive edge over its main economic rivals. The clearest instance is education, to which a productivist society may devote quite significant resources. … Overall, social policy funding is likely to be less extensive than in other worlds of welfare capitalism, because such [a] policy has a strictly subordinate status. Sources of funding may derive from both the public and private sectors. As PWC seeks to promote entrepreneurial activity, it has a natural tendency to favour private funding over public. However, if the private sector fails to meet social policy needs held to be crucial to economic advance, the state can certainly be expected to step in to meet the shortfall.

This view that the subordinated role of the social sector to the economy is so distinctively unique that it can be regarded as a fourth type of welfare capitalism, contradicts the position of some of the most well-known scholars. For instance, Esping-Andersen argues on the basis of the Japanese case that the socio-economic relations of East Asian countries have simply not matured enough to be properly classified among the welfare states. Other scholars such as Habermas (1976), Offe (1984, 147) and Bruce et al. (1999, 22-23) state in different contexts that the promotion of economic efficiency along with social equality, social integration and avoidance of social exclusion and class conflict, the promotion of social stability and autonomy as well as a reduction in poverty are the broadly accepted legitimisation methods for politicians and policy makers in all kinds of welfare regimes. Bruce et al. go on to make a normative argument that high economic growth is more important than anything else in the above mentioned list – it is the supreme goal of any welfare regime. (In fact, they go even so far as to argue that economic growth is not a practical but a moral aim of any welfare regime – not a means towards some more higher-minded end but a goal in its own right). If these assessments and positions were correct, there would be little point in speaking of a special (called productivist or any other of the above mentioned) type of welfare model in East Asia in general or Korea in particular.

It is argued in this paper that the 'Growth First, Distribution Later' (Lee et al. 2011) policy paradigm in East Asia in general and in Korea in particular is special and allows one to speak of a unique socio-economic welfare arrangement. Although it resembles the empirically based theory of Kuznets, known as the Kuznets curve, which shows that inequality rises before it falls in the process of economic development, the productivist / developmentalist welfare regime stands out because its defining feature is the subordination of social policy to economic policy (for details see Holland 2000, 2005 and Kwon & Holliday 2006). It is special compared to others because social responsibilities, traditionally understood to be the responsibility of the state in Western societies, have been taken over by companies (esp. *chaebols*) in Korea (Woo-Cumings 2001, 370). This has two contradictory implications. On the one hand, the costs of the Korean welfare model could be expected to be greatly underreported in international comparisons (with or without the aim of typology buildings). This "de-

pendent variable problem" (Clasen & Siegel 2007)[13] has typically led to the second best choices in the form of expenditure analysis. Instead of real data on the theoretical concept, the constructs are operationalised via intervening variables or proxies measured with aggregate spending data on the social sector. But if the roles carried out traditionally in advanced welfare capitalisms by the state are taken over by private, non-governmental or international entities in the less developed world, the official data simply does not show the actual level of social protection provided and benefits received. Therefore, in this context where the role of the state is taken over by some other actors, it is important to realise the conceptual difference and implications between "welfare regime(s)" and "welfare state(s)" as the scholars from the University of Bath have been stressing (see Gough 2001, Gouth & Wood with co-authors 2004 as well as Wood & Gough 2006).

The Korean productivist / developmentalist welfare regime is unique because it has produced "growth with equity" according to World Bank (1993a) and Rodrik (1996a, 20-21) while being at the same time "a paradise for big business" according to Woo-Cumings (1999b, 30). This strange formula worked as long as the Korean conglomerates were able to compete in the global marketplace. Paradoxically, what has been described as a paradigm shift in the welfare capitalism literature from 'Keynesian welfare national state (KWNS)' to 'Schumpeterian workfare post-national regime (SWPR)' (Jessop, 1993, 1994, 1999 & 2002) seems to have worked the other way around in Korea. Developmental policies place emphasis on growth enhancing factors such as human capital and infrastructure and only later extend the social benefits to people as social rights. Indeed, the policy tools promoted under SWPR such as "permanent innovation and flexibility in relatively open economies by intervening on the supply-side and strengthening as far as possible their structural and/or systemic competitiveness" (ibid 1999, 355) is very similar to the socio-economic policies that have been implemented in Korea for decades. In that sense, the emergence of KWNS in Korea was a combined result of democratisation and the need to offset the negative side-effects of the global financial and economic crises. In other words, instead of promoting efficiency, flexibility and innovativeness, Korea faces in the short and medium term the challenge of deepening welfare provisions, increasing spend-

[13] The "dependent variable problem" refers to the methodological challenges that research on welfare states and regimes has been suffering due to conceptual and data access limitations.

ing on and improving access to social benefits. Unlike most other developed countries, Korea needs to direct its welfare policies from SWPR to KWNS.

Indeed, only recently has Korea been under real pressure to provide more welfare benefits based on social rights in addition to its decade long concentration on SWPR with the aim of securing structural or systematic competitiveness in the economic catch-up process. While Offe (1984, 148) explains that "[i]n the light of the Keynesian doctrine of economic policy, the welfare state came to be seen not so much as a burden imposed upon the economy, but a built-in economic and political stabilizer which could help to regenerate the forces of economic growth and prevent the economy from spiralling downward into deep recessions", it has not quite been the case in Korea. Only minimum welfare was provided to selected beneficiaries as long as the state was repressive and authoritarian and the economy was growing fast. Nevertheless, the Keynesian logic as an argument for state provision of safety-nets has been developing together with the democratic forces even in countries like Korea and has intensified with the economic, demographic and social changes – just as the modernisation theory would suggest. Indeed, several scholars of the Korean welfare regime (see e.g. Croissant 2004, 520) report increased popular (democratic) pressure to widen the accessibility to social benefits and deepen the welfare provisions due to the low fertility rate and an ageing population, intensified female labour market participation, growing divorce rates, spreading of one-generation or single-person households, urbanisation and rising post-materialistic and individualistic values.

However, the controversy over the Korean welfare regime does not stop here. On the one hand, Hort and Kuhnle (2000, 168) question the position held above about the Korean productivist welfare model (i.e. prioritisation of that has allowed the developmental state to save on social costs in order to promote economic growth. According to them,

> … chronological latecomers in social security legislation were not latecomers in terms of 'developmental' time. Rather than arresting or retarding welfare state development, our Asian countries even preceded European nations in the sense that they adopted state welfare programmes at lower levels of modernisation. This casts doubt on the idea that the Asian economic development was based on growth without welfare. Instead, here as in Europe, modernisation was accompanied by the adoption of social security programmes.

On the other hand, Kwon & Holliday (2007, 242) argue that the image that Korea has now become more welfare oriented after the East Asian financial crisis is a myth. They state that:

> When the Asian financial crisis took a heavy toll on Korea in the late 1990s, policy makers responded by extending [the] welfare policy. For many analysts, this was a paradoxical move, marking a fundamental reconfiguration of the social policy system. This article contests that interpretation. It examines the changes made to Korean social policy in recent years, and considers their impact on the Korean welfare state. It notes both that welfare extensions have been comparatively limited, and that they have often formed part of wider attempts to boost labour market flexibility. It thus concludes that [the] limited expansion of the Korean welfare state is chiefly an attempt to bolster industrial competitiveness and economic growth. For now, Korea retains the productivist social policy orientation that has long characterised it. It also concedes, however, that in the future underlying social change, notably a rapidly ageing population, may prompt policy makers to make significant changes to the Korean welfare state.

One could propose a resolution to this controversy by arguing that education must be seen as part of social sector and its costs. Although the connection between the educational policy and welfare states/regime analysis has traditionally been weak and has been connected to the social policy in social policy literature in general (see Room 2002, Midgley & Tang 2001, 251) or to the national welfare models in particular (see e.g. Heidenheimer 1981 for the US), it has been the accepted view within the new political economy of development. For instance, the Washington Consensus (Williamson 1990) (the cookbook used to reform the economies of East and Central Europe on the development lessons gained in Latin America) suggested transferring the social sector expenditures to the sectors which can be considered as investments, such as education. Also, the World Bank (1993a) emphasised in its miracle report on East Asia that the success of this region has been biased (in addition to export orientation and what they interpreted as market friendly economic policies) with a strong emphasis on education. Indeed, within the welfare state literature, the connection between education and the social sector has been brought more directly into the discussion only within the East Asian welfare state regime literature. Indeed, most comparative research on East Asian welfare regimes has claimed that the miracle of fast growth with equity has been possible only due to the absence of the big and expensive welfare state in these NIC. As mentioned above, the argument has been that instead of depending on taxpayers' money, these East Asian welfare sys-

tems have depended heavily on the family and allowed the government to pursue different developmental goals. But this is so only if one assesses and conceptualises the productivist welfare regimes and their typologies by the Euro-centric standards and concepts. If one gives up the “cunning of imperialist reason” (Bourdieu & Wacquant 1999) and if education is seen as part of the social sector and its costs, the essence of developmental welfare capitalism becomes clearer.

In this context, the Korean welfare policy, previously oriented towards economic competitiveness and currently being redirected slightly more towards social security, contrasts with many Western welfare models. The former has depended more on informal security mechanisms while the latter has traditionally provided benefits funded from taxes instead of helping to overcome obstacles needed to find more sustainable solutions. However, both have recently started to reorient the emphasis towards an active labour market and innovation polices. The global economic and financial crisis and the accumulation of local social problems in the East and West will probably make the welfare regimes more similar in the upcoming years and decades. This convergence is reflected in the analytical models such as the one suggested by Choi (2007) that merges Gough’s and his collaborators’ informal security regimes approach with Esping-Andersen’s inspired welfare capitalism analysis.

This realisation that there is a strong connection between education and social sector polices is likely to gain wider acceptance, the more alarming the future of welfare state in the demographically critical nation states become and the more these economies have to compete globally. This has already led some scholars (see Cerny & Evans 2000, 2004; Evans & Cerny 2003) to suggest that the welfare state is being replaced with a “competition state” that channels the social sector costs towards education and training. (One only needs to consider the numerous active labour market or life-long-learning polices that have been implemented and are being funded by taxpayers’ money in high income countries or by donor money in not so high income countries). Others have gone even further to argue that the welfare states have (had) to respond to the emergence of the globalised, post-industrial knowledge society with emphasis on human capital investment. (One only needs to consider here the number of polices directed towards building innovation and knowledge capacities).

3. South Korean Developmental Welfare Capitalism and its Major Challenges

This section augments the previous sections in order to link the production and the welfare regimes to each other as well as to the political system. Last but not least, an attempt is made to point out the major challenges that the system faces. Using Soskice's (2007) extended VoC framework, it will be shown that the Korean political economy arrangement has not been static but has evolved in stages to face the challenges of the era: from the developmental state in the 1960s and 1970s, to the modernisation state in the 1980s and finally to the contradictions of the welfare state in the 1990s and 2000s. Hancké et al. (2007, 7-8) review the criticism that has been raised against the original VoC's analytical frame of Hall & Soskie (2001) and show that it can be questioned for being static, functionalistic, ignorant of the endogenous sources of national transformation and within-system diversity, mechanistic in its conception of institutional complementarities and, and hence, institutionally deterministic. In other words, VoC neglects the role of state and class relations, interpreting a firm as a passive 'institution-taker' rather than understanding it as an active and creative entrepreneur who can take a variety of forms within a national system. It has limited the number of possible varieties of capitalisms to just two (classifying them either as coordinated or liberal market economies), which reflect its bias towards manufacturing and insensitivity towards service economies. Furthermore, it misrepresents economies as isolated entities without linkages between them or the forces of globalisation, and is unrealistic about the compromise and conflict (by emphasising the former and understating the latter). Finally it neglects the gender (inequality) issues and as Kang (2006) adds, has a strong rational-choice view of institutions.

Such criticism seems to be relevant within the discussion of Korean production and welfare regime literature because the two research traditions hardly build on each other's strengths in order to overcome the limitations. Despite the discussion about the importance and value of interdisciplinary research, there is hardly any systematic attempt to relate VoC in political economy literature and "welfare capitalisms" in comparative social policy and sociology literature with each other. On the one hand, political economists do not appear to read or show interest in the comparative social policy and sociology literature on welfare states and regimes. On the other hand, the comparative social policy scholars and sociologists appear to care equally little for the political economy of development literature. Indeed, a reader who is new to the

social models literature would be surprised to learn that there is little to be found in the welfare capitalism literature about political economy, VoC or what former comparative economic systems scholars now call “new comparative economics” (see Shleifer 2002, Djankov et al. 2003). Although Esping-Andersen’s (1994, 720-726) chapter in the *Handbook of Economic Sociology* makes some cautious moves to relate the welfare states to economic performance, and Block’s (1994) entry in the same handbook manages almost the impossible – to provide an overview of “The Roles of the State in the Economy” (including an attempt to relate the different ideal types of state interference to the functioning of the economy), these are rather abstract and hesitant moves.

In this context, efforts made by E. M. Kim (1993), Holliday (2005) and H-J. Kwon (2007) to merge production and welfare regime literature as well as an attempt made by W. Kim (2010) to link changes in politics to economics and labour struggles in order to understand the Korean case are less universalistic but actually offer more practical guidance. To build on these analyses, the following paragraphs will relate the previously discussed Korean developmental state and social model to the changes in its political arrangement. It uses the above mentioned Soskice’s (2007) extended VoC framework in order to show how the Korean political economy arrangement has evolved. Similar to Peng & Wong (2008) and Lee et al. (2011) the evolution is arranged in three stages: from the developmental state in the 1960s and 1970s, to the modernisation state in the 1980s and finally to the contested welfare state the 1990s and 2000s. Indeed, to comprehend the Korean developmental welfare regime and the reasons for its past success, one has to understand not only its economic progress but also dynamic changes that have been introduced and institutionalised into its social and political arrangements. In addition to the changes in the economic and social systems described in the previous sections, the developmental welfare capitalism that has been evolving over decades in Korea has a clear connection to its political situation as has been shown among others by Asami (2011), Chan (2006), Lee et al. (2011) and Peng & Wong (2008). Indeed, as shown in the following tables, Korean political arrangements at any given point in time reflect the level of economic development and starting conditions, on the one hand, and the balance of power between labour, capital and political establishment, on the other hand.

Table 1. The Politics of Institutional Evolution

	Developmental state, 1960s and 1970s	**Democratisation, 1980s and 1990s**	**Post-industrialism, 1990s and 2000s**
Problems	Economic under-development; political legitimacy gap	Social and economic inequality; societal mobilization	Economic restructuring; reinvigorate economic growth
Window of opportunity	Post-war and post-colonial reconstruction	Democratic opening; electoral competition	1997 financial crisis; demographic change; globalization
Dominant political coalition	Productivist coalition	Progressive coalition (civil society, the state)	'New' productivist coalition (social policy advocates, economic reformers, international partners)
Purpose of social policy	Rewarding productivist sectors of society; facilitating economic / industrial development	Social justice, socio-economic redistribution, household protection	Activation of productive labour market; human capital investment

Source: Peng & Wong (2008, 70)

Table 2. The Development of Welfare Policies

Periods	**Regime**	**Economic policies**	**Welfare policies**
Authoritarian dictatorship	Park Jung-hee (1961-1979) Chun Doo-hwan (1980-1987)	Exported oriented Industrialisation (Government dominant growth strategy)	Growth First, Distribution Later (Developmental Welfare State or Minimalist Welfare State)
Democratisation	Roh Tae-woo (1988-1992) Kim Young-sam (1993-1997)		Transition period
Democratic government	Kim Dae-jung (1998-2002) Noh Mu-hyun (2003-2007) Lee Myung-bak (2008-present)	Globalization and postindustrialisation (balance between growth and distribution)	Productive Welfare Participatory Welfare Active Welfare

Source: Lee et al. (2011, 8)

As shown in Figure 3, Korea in the 1960s and 1970s can be described as a developmental state in which the industrial policy was used to promote economic growth and the social sector was subordinated to the economic sector. While government economic policy was automatic and sector neutral in the 1960s, it introduced seven specific industry promotion acts for capacity building in the 1970s. In Gereffi's terminology, the emphasis was on primary EOI and secondary ISI & EOI at this stage of economic development. Although labour was severely repressed during these two decades and the social policy could be symbolised by the slogan "Grow first, distrib-

ute later" the government did actually introduce the first welfare programmes already in this period: the Family Planning Programme (FPP) in 1962 (to bring down the fertility rate that was as high as 6.0 in 1960), the Industrial Accident Insurance (IAI) in 1964 (to provide some assurance for work related injuries), the Public Assistance Programme (PAP) in 1965 (for the poorest of the poor), and the National Health Insurance (NHI) in 1977 (for the employed in the public sector). All this was implemented by the powerful bureaucracy that benefited from competent foreign policy advisers/partners such as USAID under the apparently authoritarian political regime that purposefully delayed democratisation. In short, the limited coverage welfare regime was devoted to the promotion of economic growth.

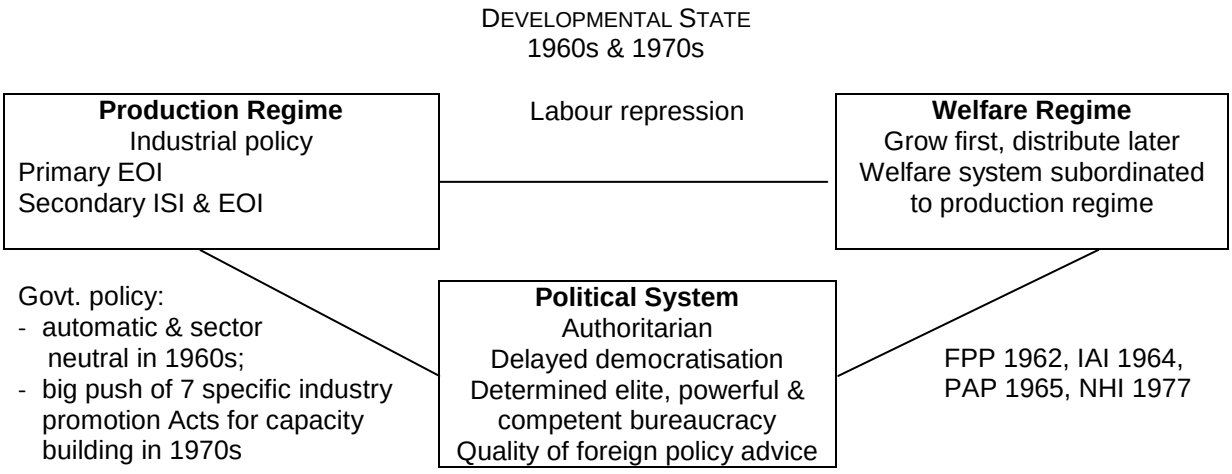

Figure 3. South Korean Developmental State in 1960s and 1970s.
Source: Composed by the author

As can be seen from Figure 4, Korea in the 1980s can be described as a modernisation state. This was the era of big business in the Korean economy, which is why some journalists labelled it "*Chaebol* Republic". Indeed, as mentioned in the first half of the paper, while the share of the top 10% of *Chaebols* in 1973 was 5.1%, it increased to 22.7% by 1989. Behind this concentration was the diversified EOI and complex technology production. Big business-government relations were characterised as well coordinated and dominated by the industry lobby. Welfare regime during this decade can be described as patrimonial or conservative – referring to the fact that social benefits were still largely limited to civil servants, the military and teachers. Apart from the introduction of the National Pension Scheme (NPS) in 1988, not much was done during this decade to deepen the welfare provisions even though there

was pressure for social justice, redistribution and family protection. This led instead to unionisation and militarisation of labour, opening up the road to democratisation, which was initiated in the late 1980s and consolidated in the early 1990s.

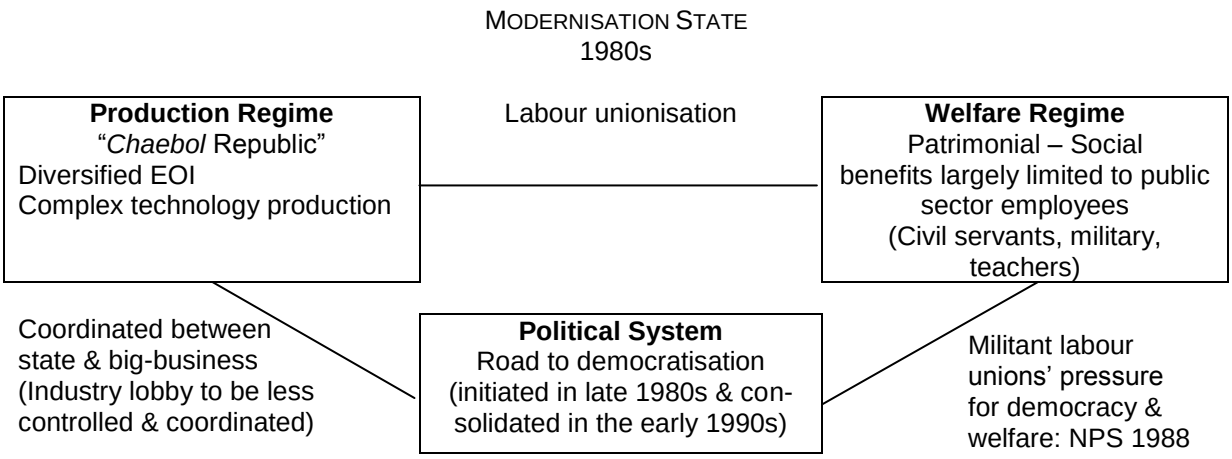

Figure 4. South Korean Modernisation State in 1980s.
Source: Composed by the author

As shown in Figure 5, Korea in the 1990s and 2000s can be described as contested welfare state. While big business had grown stronger and the state had grown weaker due to the internationalisation and global competitiveness of the economy in the 1980s, the state had to democratise and start responding to the popular pressure for more welfare benefits in the 1990s. In addition to this, Korea in the 1990s and 2000s has been facing major challenges: the economy went through the East Asian financial crisis in 1997-8, and it has been heavily hit as an export oriented economy by the global financial and economic crisis. It now also needs to compete globally, which means constant pressure not only for efficiency and productivity but also from business to eliminate the social responsibilities developed during the previous stages of development. As Chang (1999, 34-35) reports:

> In 1996, the Korea Federation of Industries, the association of the *chaebols* prepared a report arguing for the abolition of all government ministries except the ministries of defence and foreign affairs and for the consequent reduction of government staff by 90%. The report had to be officially withdrawn because it was unfortunately leaked in advance by a careless reporter and created a popular uproar. While the chance of such proposal being taken seriously was non-existent even in Korea that was then (and still is to a large extent) in the grip of an anti-statist reaction, but the incident is il-

lustrative of the aggressiveness that the *chaebols* were showing in pushing for greater business freedom in the recent period.

The political system has been democratising, which also means that politicians are looking for votes and thus hesitate to implement reforms with high short term costs and incremental benefits over the long term. Last but not least, the welfare state has to find solutions to challenges, a task that has been postponed for decades. For instance, R. S. Jones (2008) lists the following challenges related to the social sector: an ageing population (that is the fastest in OECD countries), low fertility rate (that has dropped to 1.2 – suggesting a low tax base for years to come), a postponed pension system reform (reflecting the fact that the reform with an aim to find a sustainable solution has been blocked at parliament level several times since 2003), unemployment and NEET phenomena (that have affected 20% of the 15-29 age group and 25% of the holders of tertiary education), health care accessibility due to heavy dependency on the ability to pay out of the pocket[14] and raising public expenditure.[15] There is also tremendous pressure on students to perform well at all levels of the education system (reflected in twice as high private tutoring than OECD average, which appears to kill creativity instead of contributing to the innovation society – a factor that should provide the opportunity to pay for the increasing social costs in an ageing society (OECD 2012, 23-25).

Although the government has started to seek solutions, the postponement of the timely dealing with social sector problems and the subordination of the sector to economic priorities have resulted in a backlog over the decades, which is anything but easy to solve. For instance, the government introduced Infant-Child Care Programme (ICCP) in 1991 and expanded it later; launched Mother-Child Welfare (MCW) programme in 1999 and reformed it into Mother-Father-Child Welfare Programme (MFCWP) in 2002; set up a committee on Low Fertility and Population Ageing Policy (LFPAP) in 2005 in order to find solutions to the challenges related to demography. As shown by S. Kwon (2008) and Kwon et al. (2009), it also strengthened and enlarged the Livelihood Protection Programme into the National Basic Livelihood Security System (NBLSS) through which most assistance is being provided, and it introduced the Long-Term Care Insurance (LTCI) and Earned Income Tax Credit (EITC)

[14] According to OECD (2012, 21) Korea's private share is the fourth largest in OECD.
[15] According to Jones (2008, 27-28) Korean public expenditure on health care is the fastest growing in OECD.

to boost work incentives in 2008. Last but not least, the government has attempted on numerous occasions to reform the National Pension Scheme (NPS) which has, however, been blocked several times at parliament level.

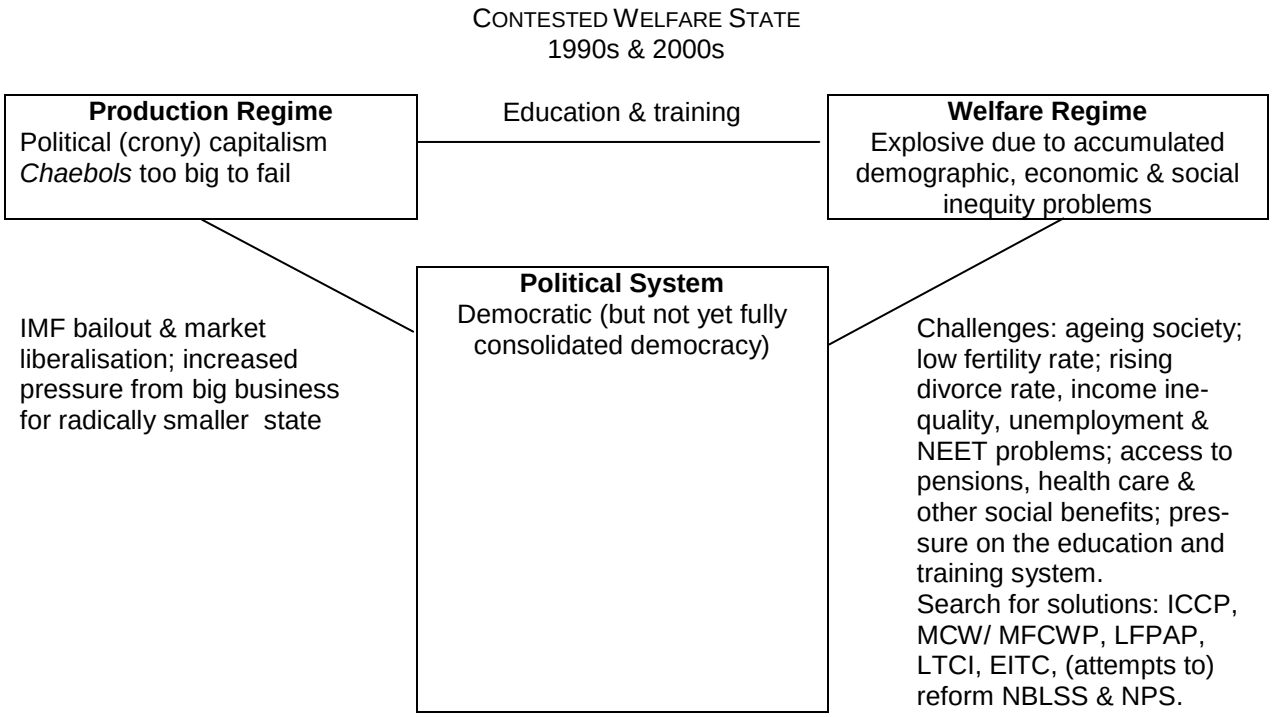

Figure 5. South Korean Contested Welfare State in 1990s and 2000s.
Source: Composed by the author

The situation remains alarming despite the introduction of these and other programmes (see Chan 2006 and Peng 2008, 174). Indeed, based on a number of policy analyses and progress reports provided by Cho (2006), Elekdag (2012), Goishi (2011), R. S. Jones (2008), OECD (2012) and Peng & Wong (2008) about the Korean ability to cope with the social problems, the situation remains extremely challenging. One can even say that the Korean low fertility rate and the rapidly ageing society, the rising divorce rate, low labour force participation (i.e. NEET problem and raising unemployment), inadequate income and long-term care for the elderly, limited access to public pensions, health care and other social benefits, rising inequality and relative poverty, pressure on the education and training system (reflected in the heavy reliance on private tutoring) make the socio-economic and political situation under the circumstances of the worldwide economic recession and intensified globalisation almost explosive.

Conclusion

There is growing interest among political economists, comparative public policy scholars and sociologists towards understanding the national differences between different forms of welfare capitalisms. In this context, the decades of sustained economic growth in East Asia have earned the admiration of policy makers, making it an exemplar for economic development that others were recommended to follow. But it has also amplified an academic discussion on how governments in countries like Korea seemed (at least initially) to be able to intervene without inviting rent seeking or distorting the market. As the East Asian miracle has not been replicated in the rest of the developing world, it suggests that the reasons behind the unique development path are more complex and context specific than any single variable analysis could indicate. This paper took a closer look at three unique and interrelated sets of arrangements with respect to the Korean developmental welfare capitalism in order to understand better the kind of capitalist society that is emerging in Korea as well as to study what others could learn from its experience.

As shown in the first part of the paper, the Korean developmental state has its origin in the Japanese model. It had to find a balance between direct intervention through the industrial policy and the market in order to promote economic growth. As a result of these peculiar methods of state intervention (including industrial policy and special arrangements between the government and big business) Korea, went through stages where the ordination from primary ISI was followed by primary EOI and then by secondary ISI and EOI. But one has to agree with scholars who are “extremely sceptical” about the transferability of the Korean development state and its experience to other countries because it would demand drastic changes in national economic policy making and implementation – “an overriding commitment to meaningful economic development, commitment that few political leaders of less developed countries appear capable of making” (Waelbroeck 1998a, 42 & 58). Furthermore, one has to be even more sceptical about the desirability to transfer these political economy arrangements, given the vulnerability that the sequences of financial and economic crises have exposed and the obvious emergence of cumulative social problems.

It has been claimed that the East Asian miracle in countries like Korea has been possible only due to the absence of the big and expensive welfare state. The argument

has been that instead of taxpayers' money, the welfare system has depended heavily on the family and allowed the government to pursue the national developmental goals. Although the economic development model had to respond to social and political pressures and much has been done to make the welfare regime more inclusive and increase the coverage, some scholars like Hwang (2011, 9) argue that the fundamental aim of the system to limit the social sector to a subordinate role has not changed, and the amendments have been made so that the social policies would not undermine the growth potential of the Korean economy. Directing the social costs to areas which could be considered as investments is in accordance with the Washington Consensus (Williamson 1990) and the World Bank's (1993a) interpretation of the reasons behind the East Asian economic miracle. It also corresponds with the criticism that has been inspired from the Euro-centric conceptualisation of welfare regimes by Midgley & Tang (2001, 251) and Room (2002) who suggest that education must be seen as part of social sector and its costs. Furthermore, as shown in the last sections of the paper, the suppressed role of the social sector has led to the accumulation of a long list of challenges and problems in Korean society that are difficult to solve with or without education – so much so that the Korean welfare situation can be considered as explosive.

The Korean case indicates that the developmental welfare capitalism can produce economic growth under an undemocratic political system if the latter has elite committed to development, a powerful and competent bureaucracy as well as strong foreign partners and advisors to rely upon. But along the lines of Polanyi, Korean developmental welfare capitalism shows that (spread of) markets indeed breed insecurity – especially for the export oriented economy with a relatively limited domestic market that relies heavily on global financial capital and consumer demand. It also suggests that as long as the political system was undemocratic, the social sector could only care about the production related issues and provide security and safety-net for the state employed. Nevertheless, once the economy became sophisticated and started to require a better educated labour force, the demands for political democratisation and wider access to social benefits emerged. Paradoxically, it has become apparent that some of the social sector reforms, such as the aim of making pension system more sustainable, are actually more difficult to carry out under the democratic government than it would have been before.

Dynamic changes in the Korean political economy and social model during the past five decades suggest that the role and relationships between socio-economic arrangements and political institutions are not fixed but subject to change over time. While the original conceptualisations of VoC or welfare capitalism could lead one to suggest that fundamental socio-economic and political institutions in society are change resistant, recent updates to VoC literature (see Hall 2003, 2007 and Hall & Thelen 2009) envision also the possibility of evolution over time. As the analysis presented in this paper shows, there is actually no contradiction as the Korean socio-economic and political arrangements reflect the balance of power between labour, capital and the political establishment of the particular era, on the one hand, and the level of economic development and starting conditions, on the other hand. Now that the political system has been democratised and the social sector problems, which were repressed for decades have surfaced, no longer to be ignored, Korean developmental welfare capitalism faces a major challenge to keep the economy competitive while the political system is under democratic pressure to find solutions to the enormous social sector problems.

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