

# INSTITUTIONS, INTERESTS, AND THE POST-IMF STRUCTURAL ADJUSTMENTS IN KOREA\*\*

Yong-duck Jung\*

**Abstract:** The role of the Korean state in structural adjustments after the economic crisis of 1997 has not been much different from the economic management style of the developmental state in the past. The state's intervention in structural adjustments of the corporate and financial sectors after the currency crisis relied on the conventional approaches of the developmental state. Compared to other countries that went through similar currency crises, Korea has efficiently performed structural adjustments. The main reasons to make structural adjustments effective include the IMF's coercive institutional isomorphism toward market economy. The high autonomy and policy capabilities that the Korean state enjoys also have supported its comparative success in structural adjustments. Such a high level of state autonomy and capability has been basically supported from the Korean people on the government's economic reform propulsion in face of the recent economic crisis. The Korean state's institutional structure including the economic policy apparatus as pilot agencies and the existence of the economic technocrats with decades' experience of mercantilism also contributed to the persistence of the developmental state. And the structural adjustments conducted by the developmental state were a rational choice of major stakeholders trying to improve their individual welfare in the political market.

## INTRODUCTION

Korea has experienced a severe economic crisis since the currency crisis broke out late in 1997. There have been many debates in Korea on what caused the economic crisis and how to overcome it (e.g., KPSA, 1998; 2000). Korea's "developmental state" is one of the key concepts discussed when explaining the economic crisis and attempting to find solution.<sup>1)</sup>

Most of the debaters agree that the developmental state was functional in the rapid industrialization of Korea for thirty years from the early 1960s. They suggest, however, different ideas about how the process has worked in recent economic crisis. Some point out that its economic management was dysfunctional in the new international environment, better known as globalization, and the dysfunction was the main reason to bring about the currency crisis. And others say that certain characteristics of the developmental state have nothing to do with the currency crisis, which was epidemic in many countries in South East Asia and South America. Diverse explanations on the causes of the economic crisis also suggest different ideas about the future

---

\* Professor, Graduate School of Public Administration, Seoul National University.

\*\* This article was presented at the XVIII International Political Science Association World Congress (World Capitalism, Governance and Community: Toward a Corporate Millennium?), Quebec, August 1~5, 2000.

1) The term of the developmental state here is used to denote a state that intervenes in the market on its convenience for the national economy, though is based on private property ownership and the market economy. The goal of economic development is nationalistic and more focused on growth rather than redistribution. Developmental goals and priorities are set based on a

---

well-integrated administrative apparatus and the power elite's strong leadership. The administrative efficiency is emphasized but such representative institutions as the national assembly and political parties are usually excluded from the policy-making process. The developmental state requires a high level state autonomy and policy capabilities.

of Korea's developmental state. Some insist that Korea should shift to an Anglo-American style of regulatory state from the developmental state in order to achieve efficient economic development. Others say that the developmental state needs to contribute continuously to the economic and social development of Korea.

In spite of such debates on the causes of the recent economic crisis and its possible connections with the developmental state and on the future of Korea's developmental state, there are few discussions about what the Korean state has done while enforcing structural adjustments in the private and public sectors in order to overcome the economic crisis. In this paper, I argue that the role of the Korean state in structural adjustments after the economic crisis of 1997 has not been much different from the economic management style of the developmental state in the past. It is true that Korean state's economic policy has been focused on a structural adjustment to correspond with the free market economy after the currency crisis from propulsion of rapid industrialization in the past. In fact, however, the state is still playing a role of the developmental state but with different goals.

The Korean state is not only enforcing structural adjustments to overcome the economic crisis but also working on industrial policies to foster certain industry areas such as information-communication industry. The Dae-jung Kim government that launched right after the currency crisis has initiated an establishment of the so-called "knowledge-based society" and strategically supported information-communication industries. The Kim government also has been supporting venture businesses to bring up medium and small-sized enterprises. So, only the target industrial sector supported by a mercantilist approach has changed from the import substitution industries in the 1960s and the heavy chemical industries in the 1970s to the information-communication industries now. In order to prove my argument that the developmental state is

remaining in Korea even after the currency crisis, however, I will focus on analyzing the Korean state's role in the process of restructuring since the 1997 currency crisis.

First, I will analyze the contents and achievements of the restructuring, focusing on the corporate and financial sectors, that the Korean state has conducted since the currency crisis. This analysis will prove that how the Korean state intervenes in the market is no different than how its developmental state worked to accomplish rapid industrialization in the past decades. The environmental and institutional factors that sustained state autonomy and capability will be analyzed. And the interests of stakeholders within the institutional structure will be analyzed. Finally, the future of Korea's developmental state will be discussed.

## **STRUCTURAL ADJUSTMENTS AND ECONOMIC PERFORMANCE**

In November 1997, Korea faced a lack of foreign currency liquidity, and on December 3, Korean government asked the International Monetary Fund (IMF) to bail the country out. President DJ Kim won the election in mid-December 1997 and launched his government in February 1998. Since then, the Kim government has conducted structural adjustments in four areas in order to overcome the financial and economic crisis, including the financial, corporate, labor, and public sectors. The Kim government perceived that the currency crisis was caused mainly by the excessive expansion and diversification of business by *Caebols* or conglomerates using bank loans and corporate bonds (SERI, 2000: 54). Therefore, the corporate and financial sectors have been the main target of structural adjustments of the government.

### **Restructuring the Financial Sector**

The Kim government's efforts for structural

adjustments of the financial sector were based on the agreement with the International Monetary Fund at the end of 1997. Up to the end of 1999, the financial sector restructuring had proceeded over three distinctive periods (Ministry of Finance & Economy, 1999). The first period was from the time of IMF bailout until June 1998. During this period, non-bank financial institutions that were seriously ailing were weeded out from the market. Also, legislation for bank restructuring was prepared. By February 1998, nine merchant banks and one investment trust company were shut down. The merchant banks already could not play their role in providing short-term loans to companies due to the loss from their imprudent investment in South East Asia, which had also been hit by the currency crisis (SERI, 2000).

The second period was from June 29, 1998, when five commercial banks were shut down, to August 1998, when the government announced its completion of the first restructuring period. During this period, the government pushed for emergency restructuring measures for commercial banks. The government helped new stock issuance of banks by purchasing the majority of such shares and purchased their non-performing loans. From February to September 1998, the government forced 21 financial institutions to shut down: i.e., first, 14 insolvent merchant banks and 2 securities firms, and then 5 seriously undercapitalized commercial banks

The third period began in Sept. 1998 and continued up to the end of 1999. During this period, the government concentrated on supporting surviving financial institutions, as the overall economic policy direction of the government was changed from "restructuring" to "economic stimulation". The government also nationalized Seoul Bank and Korea First Bank in the process of bailing out immediately after the currency crisis, and tried to sell them to foreigners only to succeed in selling the latter. As the bad debt problem of the financial

sector increased due to the *Daewoo* Group's financial crisis in July 1999, it seemed inevitable to have additional injections of "public funds" and the additional restructuring of banks and investment trust companies. As of the end of 1999, banks were estimated to have 22 trillion won worth of *Daewoo* bonds, while investment trust companies around 23.5 trillion won worth of *Daewoo* bonds and commercial papers.

As a whole, the Korean government's financial sector restructuring by such measures as liquidation, mergers, and P & As made 252 financial institutions (or 12% of the total number of domestic financial institutions) disappear. When excluding credit unions from the statistics, the percentage goes up to 20%. 19 out of the 30 merchant banks (63%) went out of business, while 10 out of the 30 commercial banks (30%) were either shut down or merged.

The structural adjustment for the financial sector has been conducted mainly by government initiatives. As *Daewoo* Group problems occurred in 1998 and made the additional restructuring of banks and investment trust companies inevitable, the government initiated a tougher restructuring process. Though the Kim government proposed such a slogan as "Respecting the Market Economy", financial institutions did not promote restructuring on a voluntary basis.

### **Corporate Sector Restructuring**

Right after its launch, the Kim government started to induce the corporate sector to agree to the government's schemes of the so-called "Five Tasks" for corporate restructuring.<sup>2)</sup> In order to achieve

---

2) The five tasks were to heighten the transparency of corporate management, to clear cross-debt guarantees among a conglomerate's affiliates, to make significant improvements of a company's capital structure, concentrating on core businesses as well as large companies' better collaboration with small and medium-size companies, and to reinforce the responsibility of major

the five tasks, the government conducted corporate restructuring through the revision of related legislation and the periodic checks of the progress (Ministry of Finance & Economy, 1999). From February to April 1998, ten laws related to corporate restructuring were revised, and many agreements were made between the creditor banks and 57 affiliates of chaebols owing more than 250 billion won on the matter of capital structure restructuring. Following the agreements between the credit banks and companies, the top five Chaebols were to conduct a "Big Deal" program, while the 6<sup>th</sup> to 64<sup>th</sup> largest businesses a "Workout Program."<sup>3)</sup> After August 1999, the government added three more to the initial five tasks to reform the Chaebols' management practices.<sup>4)</sup> The government did this without agreements with the subject companies.

The Korean government has conducted continuously such efforts to restructure the corporate sector, resulting in many achievements. The number of affiliates of the top 30 Chaebols has largely decreased by the restructuring, from 819 in 1997 to 589 in 1999. The management transparency of companies was much enhanced through an extensive revision of legislation relating to the corporate governance structure. Their financial stability and capital structure were improved through the abolition of cross-debt guarantees and the reduction of debt-to-equity ratios (Cho, 2000).

The Korean government intervened in depth to the

---

shareholders and managers (SERI, 2000: 54).

- 3) The main agreements between the credit banks and companies included reducing companies' debt-to-equity ratio to 200% by the end of 1999, conducting their business restructuring, and overseeing by banks on their new investment (SERI, 2000).
- 4) The three included to restrict conglomerates from controlling the financial industry, to suppress shady internal transactions and circular shareholding among their affiliates, and to prevent *ad hoc* inheritance of the top shareholder's shares to his or her descendents (SERI, 2000).

speed, scope and methods of the corporate restructuring. The government demanded the reduction of the debt-to-equity ratio regardless of the characteristics of the business and an implicit limit on entry into new businesses. Such government interventions do not support the incumbent government's slogan of "Respecting the market economy," but do support the conventional developmental state.<sup>5)</sup>

### Macroeconomic Achievements

Since the financial crisis of 1997, Korea has experienced dramatic economic changes. Foreign exchange reserves have been secured and the weight of short-term debt decreased due to financial aid from international financial organizations, rescheduling of foreign debt, and a continued account surplus, aiding the Korean economy to start to pull out of the crisis. The economic growth rate switched from negative in 1998 to positive, recording double-digit growth in 1999. The GDP growth rate recorded -6.7% in 1998, with the rapid contraction of domestic demand. However, in 1999, the Korean economy showed a rapid trend of recovery with a record of 10.7% economic growth rate (National Statistical Office, 2000). The economic growth rate in 2000 is estimated to reach over 8% (*The Donga-Ilbo*, June 17, 2000). National per capita income increased from USD 6,742 in 1998 to USD 8,581 in 1999, though it is still much lower than the level of the years before the currency crisis. Financial market conditions began to improve to levels better than pre-crisis ones.

Such drastic changes in the real economy during the last two and half years resulted from the financial and corporate sectors restructuring as well as a high interest rate policy, changes in monetary and fiscal policy, and changes in firms' inventories.

- 
- 5) The corporate sector proposed that the government leave corporate activities to companies' own decisions, following the newly established laws and institutions. Nevertheless, its restructuring has lagged behind that of the financial sector (SERI, 2000: 66 ~ 67).

Such structural adjustments and macroeconomic improvements in Korea are much more effective compared to Mexico (1995~1997), Thailand (1997~1999), and Indonesia (1997~1999), bailed out by the IMF (SERI, 2000: 110~116). The last policy conference was held on June 14, 2000, about two and a half years after the first conference on December 3, 1997 according to the Korean government's bail out on November 21, 1997. The IMF program is to expire on December 3, 2000 after three full years (*The Donga-Ilbo*, June 17, 2000).

## POLICY MEASURES FOR STRUCTURAL ADJUSTMENTS

As seen above, after the currency crisis of late 1997, the Korean state conducted comparatively effective structural adjustments for the corporate and financial sectors. It revised and established various laws and regulations for the corporate and financial sectors, so they can cope with a competitive market principle. The first attempt to enact a market-oriented economy in Korea was in the early 1980's. The core economic policymakers (such as Kyung-shik Kang and Jae-ik Kim) of the Doo-hwan Chun government pursued economic reform based on neo-liberal ideology. Legislations and policies initiated by the government include the Antitrust Law of 1980, the Industrial Development Law of 1985, which intended to decrease government market intervention to less than one third, and the privatization of banks and the liberalization of interest rates (1981~1988) (Jung et al. 1998). The governments of Tae-woo Roh and Young-sam Kim also pursued market-oriented economic reforms. The World Trade Organization (WTO) and Korea's joining OECD also worked as factors of coercive institutional isomorphism to liberalize Korea economy. It was mostly under the Dae-jung Kim government, however, that structural adjustments of the corporate and financial sectors

to a market system were mostly effectively conducted.

Such an effective restructuring has been caused partly by a sort of "coercive institutional isomorphism" of the IMF, which has provided bailout to Korea on the condition of the latter's treatment following the former's prescription of economic liberalization.<sup>6)</sup> It has been possible also by the statecrafts on which the Korean state has relied. The Korean state not only indirectly led the structural adjustments for the corporate and financial sectors by establishing rules for market principle but also intervened directly to conduct structural adjustments and played roles in those sectors' decision-making practices.

The structural adjustments of the corporate and financial sectors were pushed forward by direct intervention of the government but not by spontaneous decision-making of the corporate and financial sectors. For example, President Kim himself met with the representatives of the financial and corporate sectors and persuaded them to adapt to the government's restructuring policies. The economic policy-makers of the government often ordered the revisions of the structural adjustment plans set by the corporate and financial sectors when those plans were not satisfactory. As it is shown in the merge of Hyundai Electronics and LG Electronics, the government itself arbitrated structural adjustments between enterprises. There is an argument that the change of Korean Air Lines' executive board (consisted of owners) was mainly due to its management failure, but a political pressure was also inflicted (Lee, 1999: 294). The Kim government, as the former

---

6) Based on these results, some argue that after all, the currency crisis has done more good than harm to the Korean economy. The nation was actually afforded a good chance to transform itself into one with healthier and stronger companies and banks, while equipping itself with a sound system commensurate with an open economy (SERI, 2000).

governments, definitely and selectively intervened in structural adjustments. The Korean state has institutionalized a wide variety of policy instruments or levers to make the corporate and financial sectors adapt to the state policy (Yeom, 1999). The coercive measures (previously often applied to control labor movements) are not as effective now as in the past, as political democracy proceeds. But most of the policy measures, except such coercive ones, are still in use to control the corporate and financial sectors. For example, selective tax inspections or audits by the National Tax Administration and the Board of Audit and Inspection that were usually used to control the corporate and financial sectors in former governments are latently effective under the Kim government. The most effectively used policy measure of the Kim government has been to control the financial institutions by providing “public fund,” and then regulating the credit of the financial institutions given to the corporate sector.

Since the early 1960s, regulating the credit of the financial sector has been a most efficient means to control the corporate sector of former governments. Most Korean enterprises have maintained very weak financial structures, and the credit from the financial sector has been essential to their survival and success. The Chung-hee Park government nationalized all the commercial banks in 1962, in addition to the existing Bank of Korea and the Korea Industrial Bank, which were owned by the state. Also, from 1961 to 1969, the Park government established the earmarked banks including the National Bank, the Korea Exchange Bank, the Korea Housing Bank, the Korea Import and Export Bank in order to perform economic development policies effectively. So, the Korean state earned every means to control the credit of banks to the corporate world.

Also, the Korean government was able to control the corporate sector with financial mobilizations from overseas. For example, the fund inflow from

Japan due to the Korea-Japan normalization of diplomatic relations in the early 1960s and from the dispatch of troops to Vietnam contributed to the Korean state’s financial liquidity. Most of the commercial loans from overseas needed the state’s guarantee, and the Korean state gained controlling power over enterprises, which needed foreign commercial loans. The private loan interest rate (55% a year) was much higher than bank credit (25%); the so-called “policy loans” which were selectively provided to enterprises by the government was even lower (6~7%), and the interest rate on commercial loans from overseas also very low (Kim, 2000). Therefore, to secure low interest rate loans, enterprises competitively adapted to government policies.

From 1981 to 1983, the Doo-hwan Chun government stated on economic liberalization policy and privatized five commercial banks. And in 1988, the Tae-woo Roh government drove an interest rate liberalization policy. But the policy loans were excluded from the liberalization policy, and because of a chronic excess demand of funds, government regulation on the interest rate soon resumed. In the 1990s, the financial liberalization scheme in four stages was initiated and was the key of the economic policy of Young-sam Kim’s government. In spite of everything, the Korean state kept hard control over the financial sector, implying that the state could directly or indirectly intervene in the personnel policy of the executive boards in the financial sector.

The Dae-jung Kim government’s control over credit in the financial sector originates in the ruling mechanism that has been institutionalized for decades. Also, the Kim government gained another way to control the financial sector through a new financial resource called “public fund,” a fund provided by the government to the financial sector uncollectible after the currency crisis of 1997.

Nearly 102 trillion won worth of public funds and quasi-public funds had been injected into economic

recovery and restructuring from 1998 to 1999 (Yoon & Lee, 2000). Among them, 64 trillion won (or 57 billion dollars) worth of public funds were earmarked for financial sector restructuring. This amounted to 14.2% of the GDP of 1998, which was not a small amount compared to those of other countries including the United States (6.0%), Finland (8%), Sweden (6.4%), Malaysia (4.7%), Mexico (12~15%) (Caprio & Klugebiel, 1996; Yoon & Lee, 2000: 354). 45.2 trillion won (69.5% of the total public fund) was injected into commercial banks. 20.5 trillion won was used for the purchases of non-performing loans, and 43.5 trillion won was used for support of financial institutions' recapitalization and the payment of deposits in ailed institutions (Chung, 2000; Yoon & Lee, 2000: 354; SERI, 2000). Through the injection of more than 64 trillion won for financial restructuring, the soundness of domestic financial institutions generally improved and much inefficiency was eliminated.<sup>7)</sup>

The government does not pay public fund itself from the government budget. The remuneration is in the form of the government's supporting non-interest loans for the banks with a guarantee from the government to pay the loan issue interest. Therefore, the payment from the government

budget is the interest of public fund and the make up of the loss from the principal. The government is supposed to pay the interest of the public fund from 1999 to 2006, which is about 4.5 trillion won a year for eight years (Yoon & Lee, 2000: 358). The government gained the leverage for direct control over the financial factor by providing the public fund and for efficient structural adjustment for the financial as well as corporate sectors.

## ENVIRONMENTAL AND INSTITUTIONAL FACTORS FOR THE DEVELOPMENTAL STATE

Restructuring the corporate and financial sectors under the developmental state after the currency crisis in Korea was possible due to the following environmental, cultural, and institutional factors.

### Environmental and Cultural Factors

One of the factors to have the Korean state intervene in structural adjustments was the crisis itself in Korea. The currency crisis in late 1997 and the following economic difficulties were recognized by the general public as the worst economic disaster since the Korean War. Based on such recognition, the general public supported the state's conducting structural adjustments by harsh policy measures to overcome the economic crisis. During the presidential election in December of 1997, which was held right after the currency crisis broke out, all the candidates, including not only ones from political parties rooted in ex-president Park's party but also the ones from the opposite parties, had to announce, as a campaign strategy, their support for Park's economic development strategy. This move was because many Koreans showed nostalgia for economic management style of the former President Park. Most Koreans were eager for political development, hence became more critical of former president Park and his authori-

7) To critics, those effects seem insufficient to justify the use of such huge amounts of public funds (*The Chosun-Ilbo*, May 21, 2000). For example, the bad loans of commercial banks increased again, especially after Daewoo's financial crisis. Also, Seoul Bank and Korea First Bank, into which enormous amounts of public funds had been injected, began to falter again. Furthermore, the sell-off of Seoul Bank to foreigners was once again put off. There were also criticisms that only the taxpayers' burden was rising while inspections into the bearers of responsibility for the ailment of banks and financial institutions were not thoroughly done. Considering that one of the major causes of the currency crisis was the malfunction of the banking system due to the sleazy loan practices of banks and resulting huge losses, critics said that proper inspections and corresponding punishments were still in high order (Yoon & Lee, 2000).

tarian successors. Contrary to the eagerness and support for political democratization, however, the general public in the economic crisis preferred the state's active intervention in economy policies and structural adjustments. In such a mood, labor union activism in public and private sectors could not earn support from the general public, and even the support shrank more when the activists protested against the structural adjustments that could result in the reduction of manpower.

Even without the economic crisis, the general public in Korea might not have much negative sentiment against the state's positive industrial and economic policies. Political democratization and the state's intervention in the economy are not contradictory to Koreans. Actually, compared to the former authoritarian governments, the Young-sam Kim and Dae-jung Kim governments (launched in a democratic process, hence earning procedural legitimacy) have been able to perform more active intervention. The general public of Korea does have negative sentiment against Chaebols, warring about the growth of their economic power. Most Koreans believe that economic democratization comes prior to economic liberalization, which requires the strong state intervention.

### **Institutional and Organ**

In addition to the environmental and cultural factors, institutional characteristics themselves of the Korean state have contributed to the persistence of its strong stateness, hence to its effective intervention in structural adjustments. Right after the election of December 1997, the then president-elect Dae-jung Kim ordered the "Presidency Takeover Committee" to prepare a government reorganization plan from January to February in 1998 (Jung, 1999). When he took office in late February, the president executed administrative reorganizations. The core substance of the reorganizations was to reorganize the economic policy

apparatus for the efficient operation of an economic policy. Under the slogan of "Small and Efficient Government," most administrative agencies were reduced in number and shrunk in size. However, the Kim government established a new Planning and Budget Board for the public sector reforms including administrative management, public finance and budgeting, and public enterprises. After a year, the Kim government expanded and empowered the Planning and Budget Board to become the Ministry of Planning and Budget and to provide a providing budgeting function, which was in the Ministry of Finance & Economy. So, this was actually a resurrection of the famous Economic Planning Board (EPB), established by President Park in 1961, and it had acted as the most powerful pilot agency of the Korea's developmental state since then. When the Young-sam Kim government conducted reorganization in the name of "Globalization" in December 1994, however, the EPB was merged with the Ministry of Finance into a scaled-down Ministry of Finance & Economy. Such reorganization has been interpreted as an attempt to reduce the major functions of the EPB, which acted as the core pilot agency of Korea's developmental state in the past decades.

The Dae-jung Kim government also established the Financial Supervisory Commission (FSC) in April of 1998, to enforce structural adjustments for the financial sector. It is a minister-level central administrative agency with 1,800 staff, which is an integration of quasi-governmental organizations such as the Office of Bank Supervision and Examination, the Office of Securities Supervision and Examination, the Office of Insurance Supervision and Examination, and the Credit Management Fund. The Kim government has provided the FSC a special authority to investigate the financial institutions' transactions, and recently decided to allow it to conduct probes into corporate transactions (*The Hankyore-shinmoon*, July 29, 2000).

For effective structural adjustments for the



corporate sector, a special temporary authority to investigate financial transactions of the corporate sector has been given to the Fair Trade Commission (FTC) (Fair Trade Commission, 2000). This organization was established as one of the committees of the Economic Planning Board in 1980, and was enlarged to a minister-level independent agency in 1994. With the right of account pursuit, the FTC could legally pursue inner transactions of every enterprise especially between affiliates of Chaebols. In July of 1998, the commission investigated five largest Chaebols' inner transactions and collected 72.2 billion won in addition (Lee, 1999: 294).

Beside such economic policy apparatus for effective structural adjustment, industrial policy apparatus have maintained their previous status. These include the Ministry of Agriculture and Forestry and the Ministry of Maritime Affairs and Fisheries for fostering the primary industries; the Ministry of Industry & Energy and the Small and Medium Business Administration for the second industries; and the Ministry of Information and Communication, the Ministry of Culture and Tourism, and the Ministry of Science and Technology for the tertiary industries. As the number of economic policy apparatus increased, the Minister of Finance & Economy has been given the chair of the Economic Policy Coordination Committee. In January of 1998, president-elect Kim established the Labor-Management-Government Committee, which is a tripartite system to intermediate policy-making between labor and corporations. That all led to a powerful economic policy organization to enforce structural adjustments for corporate, financial, labor, and public sectors (Jung, 1999).

The economic technocrats with decades of experience have operated such economic policy apparatus. Most of the officials in charge of structural adjustments are career civil servants who have managed Korean economic policies for decades. Not only the middle and high-level

bureaucrats, all the economic ministers, including the Ministry of Finance & Economy, the Ministry of Planning & Budget, the Financial Supervisory Commission, the Fair Trade Commission, and even President's Senior Secretary of Economic Affairs were from the Economic Planning Board or the Ministry of Finance in the past. They all have experience of neo-mercantilist economic policy enforcement for years as economic technocrats.

## **POLITICS AND INTERESTS IN THE PROCESS OF STRUCTURAL ADJUSTMENTS**

The other side of the institutional structure that enabled the structural adjustments under the developmental state for two and a half years after the currency crisis in Korea was the related stakeholders' interests. Public policy-makers, bureaucrats, corporate entrepreneurs, financial managers, and labor union activists all wanted the persistence of the developmental state to accomplish their interests.

The maintenance of the developmental state was an advantageous choice for the political interest of the incumbent Kim government's core policy-makers. Overcoming the currency crisis has been the most important assignment for the political success of President Kim and his political colleagues. Therefore, they have to have set and operated economic policies actively. However, there have been more political reasons added to the general one. Active intervention of the incumbent government to the corporate and financial sectors could be an effective means to cut the latter's special relationships with the opposition parties. Even though political democratization is being advanced, Korean parties are still in need of a huge amount of election funds and rely on contributions from enterprises (Jung, 2000). The government's intervention in the economy allows also major

policy-makers of the government in power to force enterprises to adopt the government policies. The Hyundai Group's active cooperation with the so-called "Sunshine Policy" to North Korea, which is the most important outgoing policy of the Kim government, could be a good example for that. The Hyundai Group and its largest stockholder, Mr. Joo-young Chung, were not on good terms with President Kim's predecessors. It is hard to deny that economic structural adjustments under the developmental state has been a good way of "taming Chaebols" to President Kim and his political advisers.

When the economic policy, a structural adjustments policy in particular, is connected with the fund raising of political parties and contributes to form a ruling coalition for the incumbent government in power, it is not just an economic policy itself. President Kim, just like the former presidents did, recruited most of the major economic ministers from his hometown. As democratization ripens, the general public tends to have negative sentiments against such a presidential personnel policy as preferring individuals from one's hometown. In spite of such concern, President Kim, like his predecessors, filled the heads of administrative apparatus for national security and for law and order, including the Ministry of National Defense, the National Intelligence Service, the Ministry of Justice, the Public Prosecutors Office, the National Police Agency, and the heads of economic policy agencies dealing with structural adjustments with people from his native area. This fact proves that the state's intervention in structural adjustments has been not only for overcoming the economic crisis but also for the political interest of power elites.

In the restructuring process of the Kim government, the administrative bureaucracy has been the main actor, while the National Assembly has not, as in the previous governments. The New Millennium Democratic Party of President Kim has been a government party but failed to make the first

party in the National Assembly. This has made the incumbent government try to exclude the National Assembly in the public policy-making process. The public fund, which has been the most important policy measure in the structural adjustments, was decided without consent from the National Assembly, and unavoidable cases merely went through the formal procedures only (The *Chosun-Ilbo*, May 16, 2000). Using the corporatist way of intermediation by the Labor-Management-Government Committee has supported the Kim government's reliance on the administrative bureaucracy with exclusion of the National Assembly. Also, the Kim government has tendency to operate showed tendency of operating public policy in cooperation with non-governmental organizations that were actively set after the late 1980s. The policy-making and operation in cooperation with labor union and other non-governmental organizations has eventually decreased the role of the representative institutions.

Most of the economic technocrats operating economic policies in the Kim government are acquainted with mercantilism from rapid industrialization over the past decades. Maintaining the developmental state is the best way to improve their individual welfare. Severe bureaucratic politics have been prevalent among the officials of the Ministry of Planning & Budget, the Ministry of Finance & Economy, the Financial Supervisory Commission, the Fair Trade Commission in the process of structural adjustments (Jung, 1999).

Corporate and financial leaders preferred also the structural adjustments under the guidance of the developmental state pursuing their economic interests. The financial sector leaders have had no other means to find a way out of the peril of dishonor than the public fund from the government. The owners and managers of Chaebols were also in economic hardship and wanted exceptional support from the government, as previously had been their privilege. The Chaebols of Korea have wanted to

excise the government regulations, and meanwhile they have expected many selective advantages from the government. It was their strategy to gain favors from the structural adjustments and avoid non-favors by negotiation with the government (Yoo, 1998).

## CONCLUSION

The Korean state's intervention in structural adjustments of the corporate and financial sectors after the currency crisis relied on the conventional approaches of the developmental state. The Korean state has intervened indirectly and directly in both sectors with various policy measures. Compared to other countries that went through similar currency crises, Korea has efficiently performed structural adjustments. The main reasons to make structural adjustments effective include the IMF's coercive institutional isomorphism toward market economy. The high autonomy and policy capabilities that the Korean state enjoys also have supported its comparative success in structural adjustments.

Such a high level of state autonomy and capability has been basically supported from the Korean people on the government's economic reform propulsion in face of the recent economic crisis. The Korean state's institutional structure including the economic policy apparatus as pilot agencies and the existence of the economic technocrats with decades' experience of mercantilism also contributed to the persistence of the developmental state. And the structural adjustments conducted by the developmental state were a rational choice of major stakeholders trying to improve their individual welfare in the political market.

As pointed out in the introduction, many debates are being conducted on the future of the developmental state in Korea. Some people insist that the developmental state should be abolished with progress of economic liberalization, while others

say that it needs to be maintained in order to develop social security networks and to drive economic democratization with economic liberalization.

Such a normative issue is beyond the scope of this paper. The purpose of this paper is to show that Korea's developmental state has continuously played an important role in overcoming the recent economic crisis and conducting structural adjustments. It suggests also a possibility of persistence of the developmental state in Korea in the foreseeable future. Political democratization has been progressing rapidly during the last ten years. This does not, however, seem to have led to a significant decline of the developmental state. Just as it was in Japan after the World War II, the two governments of Young-sam Kim (1993~1998) and Dae-jung Kim (1998- ) that launched with political democratization, have displayed even more power than former governments, when it is necessary.

As both political democratization and economic liberalization progress, various effective policy measures of the developmental state will no longer be useful. That will bring changes in the scope of the Korean state's activities in its economic practices. For example, the "comprehensive" developmental state could turn into the "limited or soft" developmental state (Kim, 2000; Yoo, 1998). In spite of everything, the characteristic of the Korean state in terms of intervention in a market and civil society based on its high level of autonomy and capability will remain for quite a while.

## Bibliography

- Cho, N. 2000. *Corporate Governance System of the Korean Firms*. Paper Presented at the Conference of Korean Association for Public Administration. (April 29). Seoul .
- Chung, W. 1998. *The IMF and Korean Economy*.

- Paper Presented at the Special Conference of the Korean Political Science Association. (December 3). Seoul.
- Fair Trade Commission. 2000. *Achievements in and New Tasks of the Korean Fair Trade Policy*. Seoul: FTC.
- Jung, Y. et al. 1998. Institutionalizing the Antitrust Policies in Korea. *Journal of Regulation Studies*. 7(1): 155~84.
- Jung, Y. 1999. Globalization and Its Impact on the Developmental State: The Case of Korea, Paper Presented at the IPSA Structure and Organization of Government Conference Globalization and Its Impact on Governance. (April 22~24). University of Wisconsin-Madison.
- Jung, Y. 2000. Great Policy Failures, Public Administration's Credibility, and Good governance in Korea. Paper Presented at the ASPA Conference. (April 1~5). San Diego.
- Kim, I. 2000. Modernity and the Developmental State in Korea. Paper Presented at the Conference of the Sungkyunkwan University Social Science Research Institute. (June 24).
- KPSA. 1998. Political Economy of the Korean Economic Crisis. Proceedings of the Special Conference. The Korean Political Science Association. (December 3). Seoul.
- KPSA. 2000. Changes of the Korean Politics and Society after the IMF Bail out, Proceedings of the Special Conference of the Korean Political Science Association. (July 20~22). Daejeon.
- Lee, Y. 1999. Limits of the Kim Government's Economic Reform towards Neo-liberal State. *Korean Political Science Review*. 33(4): 287~307.
- Ministry of Finance & Economy. 1999. *Achievements in and New Tasks of Economic Policy*. Seoul: MOFE Policy Report.
- National Statistics Office. 2000. *Stat-Korea*. <http://www.nso.go.kr>
- SERI. 2000. *Two Years after the IMF Bailout: Samsung Economic Research Institute Research Report*. Seoul.
- Yeom, J. 1999. Democratization and Government-Business Relations, In Y. Jung. et al. eds., *The New Institutionalism and Governance in Korea*. Ch. 8. Seoul: Daeyoung Moonwhasa.
- Yoo, S. 1998. Democracy and Market Economy. Paper Presented at the Conference of the Korean Political Science Association. 3~5. (December). Seoul. Korean.
- Yoon, Y. & S, Lee. 2000. Public Fund Injection to Financial Sector and Taxpayer's Burden. Paper Presented at the National Conference of the KAPA. (June 23~24).