

ABSTRACT

Developmental State in Korea, 1961–1992: The Paradox of Economic Growth and The Changing Nature of State–Business Relation

Jang, Sangchul
Dept. of Sociology
The Graduate School
Yonsei University

The developmental state theory, which has drawn much attention since 1980s as a framework to account for East Asian experience of economic growth, is an attempt to replace the predominant neoclassical explanation by focusing on the active leadership role of the state. This dissertation aims to clarify several conceptual and theoretical shortcomings of this attempt when applied to the South Korean case, and to argue that some of the most recent theoretical ventures such as new institutional economics and new economic sociology can be more fruitfully utilized to.

The most salient characteristic of the Korean developmental state system is the formation of state–big business alliance mediated by the financial support from the former to the latter. It was Heavy and Chemical Industrialization drive in the 1970s that facilitated the formation of this type of state–business relationship by making policy loans unavoidable. This is because heavy and chemical industries generally require a high level of capital investment private businesses could not afford in the developmental period. In spite of this imbalance between the required capital input and the capacity of the private businesses, the Korean state was determined to achieve visible economic performance within the shortest possible period of time, which left

the state with no other alternative but to support the big businesses with financial tools. The state provided not only direct financial support but sometimes extreme policy measures like the declaration of moratorium on all curb market loans on 3 August 1972, which contributed to the deepening of the business reliance on the state.

The Economic Stabilization Policy package of 1979 was an attempt to bring in a new type of state-business relationship intended by the former. However, it seems that the affiliated policies like financial liberalization and the legislation of Monopoly Regulation and Fair Trade Act failed to bend the trajectory toward the competitive market economy. One of the reasons behind this failure is the ambivalent nature of the states intention. It seems clear that at least part of the states motivation was to unload some its burdens by introducing this new type of state-business relationship. Another part of the motivation was to maintain its superior position to the private business, which was revealed by its continued strengthening of policy regulations on the latter. This latter consideration put a boundary within which economic liberalization and the states superiority could coexist.

Still another factor behind the failure was inertia. The state-business relationship consolidated and institutionalized during the developmental era could not easily be transformed to a new one. The institutionalized practices of the state-business interaction and the consequent lack of bank autonomy prohibited the implementation of the state policy above and beyond a certain limit. As a consequence, it is still the state which actually decides who gets the bank credit and who does not. Given this continued dominance of the state in the financial arena, one can hardly expect the transition toward the competitive market system, or the implementation of the regulation policies on the big businesses in the real sense of the term.

However, this does not automatically mean that there has been no change at all in the state-business relationship. It is important to point out that the states control over financial resources and its support of the chaebol no longer exactly correspond to the fostering, or maintaining, monopoly in the domestic market. The state had been quite successful in buying political legitimacy with economic performance up to the end of 1970s. The increasing marginal return of the Heavy and Chemical Industry drive contributed to the

setting up of a long-term trajectory of the state-business relationship. Since the 1980s the states support of the chaebol begins to put on a new set of characteristics. It is obvious that the state began to discourage further expansion of the chaebols influence. The remnants of the 1970s-type state support can only be found in the moments of crises. In normal times, the companionship between the two major players is hard to find. The continued existence of the states support of the chaebol is there only because of the dominant position of the latter in the domestic economy, which means that the crisis of the chaebol will certainly lead to crisis of the entire economy, which in turn will obviously impart a negative impact on the political regime.

It is hard to find a unidirectional and consistent change in the state-business relationship in the 1980s since the dissolution of the developmental state system in the 1970s. When viewed through the lens of industrial policies and affiliated policy loans, changes that stand out include the dissolution of the companionship between the state and big business and the weakening of the developmental state system. However, one can still find the legacies of the developmental era in the failure of the interest rate liberalization and bank privatization. In some spheres like the strengthened regulation on bank credit, one can even observe a developmental state stronger than its counterpart in the 1970s. The legislation and implementation of the Monopoly Regulation and Fair Trade Act help reveal the ambivalent motivation of the state. The consequences of the act testify to the inertia of the developmental state. At the root of this inertia lies the fact that the state-business relationship mediated by industrial finance resists any fundamental change. If one admits that the ultimate source of the Korean developmental state had been its control over financial resources, the source of changes should also be sought at the same juncture. This observation leads us to a conclusion that the Korean state still maintains its characteristics as a developmental state even in the 1980s. The Korean developmental state has now formed a trajectory of economic growth.

Key Words: developmental state, state-business relationship, financial policy, institutionalization, increasing returns, path dependency.