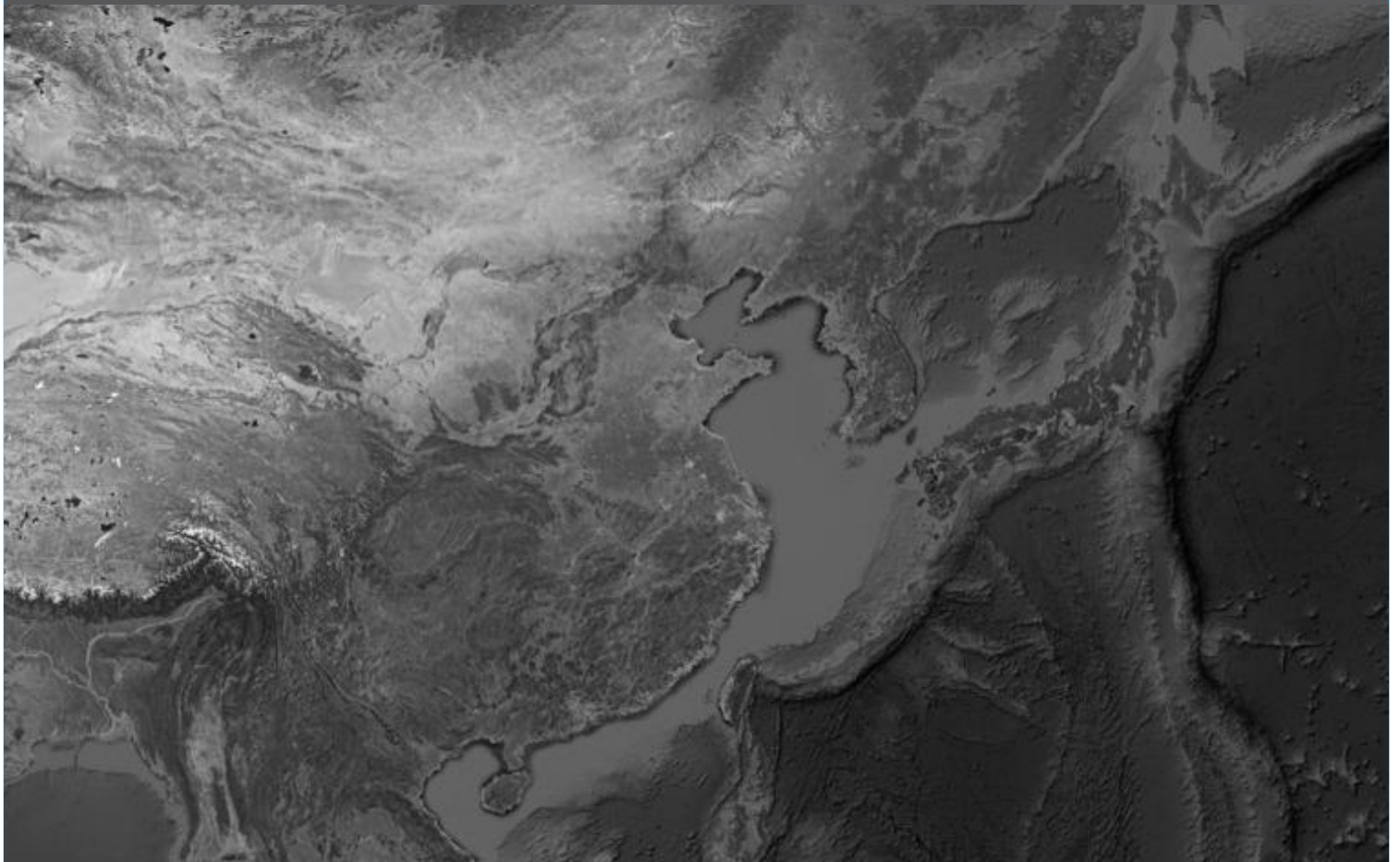


SNU Asia Center, Seoul National University, Republic of Korea

22~23 August 2013

Re-locating East Asian Developmental States  
in their Transnational and Local Contexts

# Geo-political Economies of East Asia



## **Geo-political Economies of East Asia**

## **1st International Workshops on 'Geo-political Economies of East Asia'**

*Organizers: Bae-Gyoon Park, Jinn-yuh Hsu, Jim Glassman, Asato Saito, James Sidaway*

**A** transnational team, whose members include Bae-Gyoon Park at Seoul National University (Korea), Jim Glassman at University of British Columbia (Canada), Jinn-yuh Hsu at National Taiwan University (Taiwan), Asato Saito at Yokohama National University (Japan), and James Sidaway at National University of Singapore (Singapore), is organizing a series of international workshops on "Geo-political Economies of East Asia". Through these workshops, this team aims to develop new ways of thinking on the East Asian capitalist development by focusing on multi-scalar dynamics of geo-political economies in the Asia-Pacific region. The first workshop will be held at Seoul National University, Korea, from 22 to 23 August 2013. Here is more detailed information on the first workshop.

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## About International Workshops on “Geo-political Economies of East Asia”

### Round 1: Re-locating East Asian Developmental States in their Transnational and Local Contexts

Jointly Organized by SNU Asia Center, Department of Geography Education at Seoul National University and SSK Research Team on “State and Localities”

- Venue: SNU Asia Center, Seoul National University, KOREA
- Dates: 22 ~ 23 August 2013

A transnational team, whose members include Bae-Gyoon Park at Seoul National University (Korea), Jim Glassman at University of British Columbia (Canada), Jinn-yuh Hsu at National Taiwan University (Taiwan), Asato Saito at Yokohama National University (Japan), and James Sidaway at National University of Singapore (Singapore), is organizing a series of international workshops on “Geo-political Economies of East Asia”. Through these workshops, this team aims to develop new ways of thinking on the East Asian capitalist development by focusing on multi-scalar dynamics of geo-political economies in the Asia-Pacific region. The first workshop will be held at Seoul National University, Korea, from 22 to 23 August 2013. Here is more detailed information on the first workshop.

#### Theme

The theme for the first workshop is “Re-locating East Asian Developmental States in their Transnational and Local Contexts.” For the last four decades, one of the most influential perspectives on East Asian capitalist development has been the so-called “developmental state thesis”. Emphasizing the role of the autonomous state in national industrialization in East Asian countries such as Japan, South Korea, and Taiwan, the developmental state thesis has been a significant alternative to the mainstream developmental perspective that highlights market logics in explaining East Asian development. Furthermore, with growing challenges to neoliberal discourses after a series of global financial crises in the late 2000s, and backed up by Keynesian economics, the developmental state thesis has become a hegemonic interpretation of East Asian development.

The growing influence of the developmental state thesis in the explanations of East Asian development, however, have become a serious barrier to the emergence of new, innovative and alternative perspectives on East Asian political economies. In particular, the methodological nationalism and territorialism, inherent in the developmental state thesis, have significantly restricted the growth of views that connect the East Asian political economies to more transnational and local contexts, as well as views that emphasize social relations and power struggles among forces and actors acting at and across diverse territories, places and geographical scales.

The developmental state thesis is territorial insofar as the boundaries of each developmental state are said to either contain or exclude the regulatory order of developmentalism. Also, it is methodologically nationalist because it tends to see the national scale as the basic unit in which developmentalism is manifested, thereby privileging the national scale of state and economic activity over transnational or sub-national scales. Thus, the developmental state thesis presumes that the regulatory surface of each East Asian developmental state is smooth, homogenous and encompassing within its national territory. As a result, it cannot properly address the variegated nature and multi-scalar, trans-border processes of East Asian capitalist development.

With this problem orientation, the first workshop aims to collect papers that address the multi-scalar dynamics of East Asian capitalist development, with special focus on the complex interactions and negotiations among diverse

social, political, and economic forces and actors acting at and across various places, territories and geographical scales.

### **Subsequent Workshops**

Subsequent workshops, tentatively to be organized for Taipei, Vancouver, Tokyo and Singapore will take on in more detail some of the themes that develop in the Seoul workshop, as well (possibly) as following themes.

- Geo-political Economies of Cold War and Post-cold War Eras
- The Asia-Pacific Ruling Class and the Cold War Regime of Accumulation
- Exportist Regimes of Accumulation and East Asian Developmental States
- The Rise of China and the Crisis of the Cold War Regime of Accumulation
- Developmental State and Uneven Regional Development
- Developmental Urbanism and Urban Crisis in East Asia
- Legacies of Cold War Developmentalism
- East/Southeast Asian Developmental State Differences
- and more

### **Organizers**

Bae-Gyoon Park (Seoul National University, Korea)

Jinn-yuh Hsu (National Taiwan University, Taiwan)

Jim Glassman (University of British Columbia, Canada)

Asato Saito (Yokohama National University, Japan)

James Sidaway (National University of Singapore, Singapore)

### **Local Organizers of the Seoul Workshop**

Bae-Gyoon Park (Seoul National University, Korea)

Keun-Sik Jung (Seoul National University, Korea)

Tae-Gyun Park (Seoul National University, Korea)

## **Program**

**1st Day: 22 August (Thur) 2013**

### **• Opening Session (9:00 ~ 9:40 am)**

Moderator: Bae-Gyoon Park (Seoul National University)

9:00 ~ 9:10 am **Welcoming Address**

Myung-Koo Kang (Director, SNU Asia Center)

9:10 ~ 9:40am **Keynote Speech**

Hyun-Jin Lim (Seoul National University, Korea)

**“Still the Century of Development State? : A Reflection from South Korean Experience in Comparative Perspective”**

### **• Session 1 (9:40 ~ 10:40 am)**

Moderator: Bae-Gyoon Park (Seoul National University)

9:40 ~ 10:00 am **Presentation 1**

Bob Jessop (University of Lancaster, UK)

**“The Developmental State in an Era of Finance-dominated Accumulation”**

The basic idea behind the developmental state dates back at least to Friedrich List's concern in the mid-nineteenth century with state policies to promote 'catch-up' competitiveness and was oriented not just to economic matters but also to questions of national security. One can even trace it back to the Renaissance and the mercantilist era before the rise of industrial capitalism. The concept of the developmental state was first applied explicitly to Japan, of course, then adopted for other East Asian economies, and has since been applied to other continents (e.g., Latin America, Europe) and to scales of economic and political organization that are local, regional, or even supranational (e.g., the European Union). Its immediate context was the post-WW2 era of Atlantic Fordism and its relevance was already being questioned during the crisis of Atlantic Fordism even as Fordist production methods were still spreading beyond the North Atlantic region. It has been questioned even more vigorously for the post-Fordist period, in which the knowledge-based economy was, for a time, the hegemonic economic imaginary. This holds especially for those who advocated neo-liberalism, with its ambition to roll back the state. But a role for the state remained in promoting Schumpeterian innovation, whether directly oriented to the knowledge-based economy or not, and this could be understood as a new stage in the pursuit of catch-up competitiveness policies, requiring some institutional redesign in the architecture of the state. The development of finance-dominated accumulation also prompted some states to seek a place in a changing world market organized increasingly in the shadow of financialization and here, too, we could see different kinds of developmental policies. The experience of the IMF (or "Asian") crisis and, more recently, the contagion effects of the North Atlantic Financial Crisis (sometimes misleadingly labelled the "global financial crisis") have also shown that there is still an important role for the state, both in defending their economic spaces against financial contagion, and, equally importantly, in positioning their economic spaces in relation to the rebalancing of the world market that has followed the crisis in the North Atlantic region. For all these reasons, then, it makes sense to revisit the concept of the developmental state, to offer a periodization of its stages over the *longue durée*, to consider its crisis-tendencies in different periods, and to examine how the developmental state has been re-interpreted during the last 20, 15, and 5 years in response to economic crises at the national, regional, and global levels. This is the aim of my paper.

10:00 ~ 10:20 am Presentation 2

Ngai-Ling Sum (University of Lancaster, UK)

**“Rethinking ‘Developmental State’ Via Cultural Political Economy: Neoliberal Developmentalism and the Case of China”**

This paper starts with a two-pronged critique of the developmental-state literature. First, from the viewpoint of modes of economic development, the developmental state literature is largely inspired by a Weberian view of a state. In these



terms, there is a close working relation between the developmental state and big business corporations based on a social pact oriented to national security and economic development. Nonetheless the state retains sufficient autonomy to discipline business corporations and the market when and as necessary in the 'national interest'. Second, and more recently, from the viewpoint of debates on neo-liberalism, the developmental state is seen as a viable alternative – theoretically, politically, and in terms of economic performance – to the neo-liberal project of neo-liberalization. This position seems to assume that the developmental state is not a capitalist type of state and/or is not subordinated to the logic of capital. This perspective is more interesting in the current conjuncture but also needs to be challenged. It invites us to start with global capitalism, especially as it is organized in the shadow of finance-led accumulation, and to explore how national forces are cooperating with transnational forces in the remaking of local and national political economies and inserting them into the global economy. In this context, my paper uses the case of China's internationalization of Renminbi (Chinese currency) to show how this realignment has occurred in the context of the global drive for financialization and how the development state perspective misses some important transnational socio-economic changes.

10:20 ~ 10:40 am **Discussion 1**

Seung-Wook Baek (Chung Ang University, Korea)

Q&A

10:40 ~ 11:00 am **Break**

**• Session 2 (11:00 am ~ 12:00 pm)**

Moderator: Jim Glassman (University of British Columbia)

11:00 ~ 11:20 am **Presentation 3**

Joo-Hyoung Ji (Kyungnam University, Korea)

**“The Fall of the Developmental State and the Rise of the Neoliberal State in South Korea: Transformations in Historical, Geographical, and Social Relations”**

This paper engages with the debate on the present condition of the state in East Asia, often called the developmental state by reference to the South Korean case of state transformation. First, it will critically review recent debates on the characteristics of the contemporary Korean state, and suggest that the debates did not fully address the recent transformation of the Korean state. Second, following Poulantzas and Jessop, it will redefine the developmental state as a form-determined social relation or a condensation of historical specific social relation including international and regional relations. Thus, in so doing, it focuses on the historically specific spatio-temporality of the state that enabled the rapid growth as well as the role of the autonomous state apparatuses and its narrow relations (such as 'embedded autonomy' or 'governed interdependence') with society (including big business). Third, using this definition, it compares the development state with the present Korean state significantly transformed after the economic crisis in 1997, and assesses how well the contemporary Korean state meets this criterion in terms of its wider spatio-temporal characters as well as its apparatuses, policies, and relations vis-a-vis civil society and big business. Though it is imbued with some old legacies, it is argued that it should no longer be considered as a developmental state since it is distinct from the latter in critical manners. Fourth, the paper argue that the South Korean state has been neoliberalized significantly (though not fully or purely), and cannot be called a developmental state any more simply from the fact that its bureaucracy actively pursues development. For development is seen to be a universal objective pursued by the modern state if we reject the dichotomy between the state (development) and market (non-development), and also its performance, apparatuses, policies, social relations, and so forth no longer match the development state. Finally, the paper will conclude with a brief analysis of the contemporary Korean state as a neoliberal state with Korean characteristics.

11:20 ~ 11:40 am **Presentation 4**

Dokyun Kim (Seoul National University, Korea)

**“A Developmental Bargaining? Finance and Welfare Conflicts in South Korea”**

This paper aims at examining what impacts the state's finance control and savings mobilization strategy had on welfare conflicts in Korea. The conventional wisdom is that while the individualistic mandatory savings scheme remained unchanged in Singapore, the exclusionary social insurance system changed into the inclusive one in Korea. However, first, with the public welfare lagged-behind, household savings de facto played a key role as a material base of people's

livelihood even in Korea. Savings campaigns even tried to forge life-pattern based on thrifty, austerity, self-help, and self-reliance. Second, the savings mobilization in combination with the state-controlled financial system made it possible for the authoritarian government to extensively make use of the income tax exemption system to prevent the decrease of disposable income under the low-wage policy. Third, the savings encouragement policy and the income tax exemption system had so strong path-dependent effects that they were used as decisive methods to cope with welfare conflicts since the democratization. By revising the Tilly's bargaining model, this paper identifies the state-citizen relationship based on high household savings and low tax burden as the 'developmental bargaining'.

11:40 am ~ 12:00 pm **Discussion 2**

Anders Riel Müller (Roskilde University, Denmark)

Q&A

12:00 ~ 1:00 pm **Lunch**

• **Session 3 (1:00 ~ 2:00 pm)**

Moderator: James Sidaway (National University of Singapore)

1:00 ~ 1:20 pm **Presentation 5**

Jinn-yuh Hsu (National Taiwan University)

**The Old Wine in the New Bottle? A Comparative Study between the EPZ and FEZ**

Is the Free Economy Zones (FEZs) just another repetition of the Export Processing Zones (EPZs)? This paper will examine the zoning policies in East Asia to flesh out the transformation of the developmental states by comparing the EPZs with the FEZs. The zoning policy, an exclusively demarcated area with preferential policy package, was usually used as a tool by East Asian developmental state, which even suspended its sovereignty, to engage in the process of latecomer industrialization. Rather than testifying the demise of the nation-state, zoning is a kind of strategies that the state adopts to articulate with the global mobility of capital, technology and people by selectively liberalizing certain areas from national normal regulation. Different types of zones are proposed by the state to meet the challenges and opportunities induced by the different stages of exportism. Through the examination of a set of socio-spatial relations, including border, territorial development and inter-scalar relations, this paper argues the FEZs differ from the EPZs in the divergent modus operandi which revolves around the compromise of geoeconomic integration and geopolitical calculation. It further argues that zones proliferates, and become a comprehensive spatiality of the state. It finds out that given the original idea of exceptionalism in the zoning strategy, the zones proliferate and diffuse across the national territory and become omnipresent in the East Asian contexts. State zoning, or state uses zoning as exceptionalism, becomes zoning state, or zones cover state as universalism.

1:20 ~ 1:40 pm **Presentation 6**

Bae-Gyoon Park (Seoul National University, Korea)

Dong-Wan Gimm (University of Seoul, Korea)

Se-Hoon Chang (Dong-A University, Korea)

**"Putting the Korean Developmental State in its Localities: A Multi-scalar Analysis of Industrial Complex Development in the 1960s and the 1970s"**

In explaining the economic success of the East Asian countries, the developmental state thesis highlights the positive role of the state intervention in markets. In particular, it sees as an essential condition for the East Asian economic miracle the capacity of the autonomous national bureaucrats, which are assumed to be independent of particular economic and social interests, to lead the policy-making process on behalf of the nation as a whole. More specifically, the state's industrial policies have been seen as a crucial means through which the national bureaucrats have been able to guide and discipline firms to play a role in national industrialization. This kind of explanations, however, lacks serious understandings of the spatial aspects of industrial development due to its limited focus on aspatial elements of industrial governance. Industrial activities actually take place at certain locations, and necessarily require the infrastructures facilitating the spatial flows and movements of materials, information, money, and so on. Indeed, constructing industrial

complexes was a crucial means that the Korean state utilized to promote national industrialization in the 1960s and the 1970s. Without paying sufficient attention to the spatiality of industrialization, the developmental state thesis may provide a biased view on the Korean industrial development. In particular, its emphasis on the leadership role of the state in national industrialization may not be easily justified, once the complicated socio-spatial processes through which the industrial complexes had been constructed are carefully examined.

With this problem orientation, this paper aims to explore the spatiality of Korean industrial development in the 1960s and the 1970s by focusing on the development of industrial complexes. In contrast to the developmental state thesis, which relies on the neo-Weberian assumption of the state-society separation and the methodological nationalism, this research borrows the strategic-relational view to the state, which sees the state actions as an outcome of complex interactions among social forces acting in and through the state, as well as the multi-scalar approach to the political economic processes, in order to search for a theoretical alternative to the developmental state thesis. In particular, we will examine the ways in which the construction of some selected industrial complexes were planned, implemented and materialized through complex and contested interactions among social forces at various geographical scales acting in and through the state.

1:40 ~ 2:00 pm **Discussion 3**

Szu-Yun Hsu (University of British Columbia, Canada)

Q&A

2:00 ~ 2:20 pm **Break**

• **Session 4 (2:20 ~ 3:20 pm)**

Moderator: Asato Saito (Yokohama National University)

2:20 ~ 2:40 pm **Presentation 7**

Jenn hwan Wang (National Chengchi University, Taiwan)

**“Towards A Platform Builder: the State’s Role in Taiwan Biopharmaceutical Industry”**

This paper uses the development of biopharmaceutical industry in Taiwan to illustrate the process of state transformation and to reconsider the developmental state approach in East Asia. It will argue that the state’s role in this highly innovative industry has changed from being a leader to a platform builder that assists the network building among related actors in facilitating the industry to emerge. It will show that the state failed to promote the biotechnology industry at its initial stage in the early 1980s by imitating the successful leadership model. However, the state has been transforming into a platform builder since the mid-1990s that intends to synchronize different types of actors to stimulate the interactions among them to generate this very innovation-based industry. In the process, as a platform builder, the state shows four distinguished features: learning from abroad to implement compatible institutions to nurture innovation industry; using the strategy of resource leverage to stimulate the innovative industry to emerge; building multiplex networks to insert local firms to global networks; augmenting market size by negotiating with China to expand the industry’s prospective future. All these actions show that the state is still important in promoting the emergence of a new industry. However, this paper will show that the evolution of the state has a path dependency effect that may hamper the result of the state has aimed for. Finally, this paper will discuss the issues related to this state transformation in facilitating an innovation-based industry to emerge and its implications for the economy as a whole.

Keywords: Taiwan, Biopharmaceutical, platform builder, developmental state

2:40 ~ 3:00 pm **Presentation 8**

Jamie Doucette (University of Manchester, UK)

**“Between Provisional Utopias and Market Democracy? Debating Economic Democratization in South Korea”**

In the lead-up to the fall 2012 presidential elections in South Korea, ‘economic democratization’ became a key campaign pledge embraced by parties across the political spectrum, and its meaning was hotly debated. This marked a significant departure from the growth-first politics of ‘national advancement’ (seonjinhwa) embraced by the incumbent conservative regime and a move to greater commensurability in public debate between the terminology of left and right in

a political climate where Cold War rhetoric often saturates the political field. In order to better understand the origins of this transformation and to assess its limits, this paper examines how the concept of economic democracy emerged both from pre-existing debates about 'developmental dictatorship' (kaebol tokjae) and Korean modernity on the Korean liberal-left as well as a long-standing anxiety among various political forces about Korea's institutions of export-led economic growth: particularly the power of the country's large, family-led conglomerates known as the chaebol. I try to show how the different ways in which participants in both past and contemporary debates have understood both Korean development and other capitalist models have shaped the different reform strategies that they proposed for tackling these problems: from shareholder value restructuring of the nation's large family-led conglomerates (chaebol) to a social compromise that preserves the management rights of the chaebol in exchange for increased taxation and industrial policy. In particular, I argue that there is tension within these debates between a tendency that treats other models of capitalism as inspiration or 'provisional utopias' for economic policy and one that takes them as normative models that demonstrate the backwardness of the Korean economy in a way that has the potential to obscure the structure of actually-existing capitalism on both a global and national scale. By exploring these tensions, I hope to show how models of capitalism serve not only as ideal-types but also as dynamic influences upon existing political struggles over the nature and meaning of capitalist development in Asia.

Keywords: democratization; welfare; developmentalism; economic democracy; South Korea; varieties of capitalism

3:00 ~ 3:20 pm **Discussion 4**

Hee-Yeon Cho (Sungkonghoe University, Korea)

Q&A

3:20 ~ 3:40 pm **Break**

**• Intensive Discussion Session I (3:40 ~ 6:00 pm)**

Moderator: Bae-Gyoon Park (Seoul National University)

6:30 pm ~ **Dinner**

## 2nd Day: 23 August (Fri) 2013

### • Session 5 (9:40 ~ 10:40 am)

Moderator: Jinn-yuh Hsu (National Taiwan University)

#### 9:40 ~ 10:00 am **Presentation 9**

James D Sidaway (National University of Singapore)

Carl Grundy-Warr (National University of Singapore)

Chih Yuan Woon (National University of Singapore)

### “Territorial Tricks: The Sovereignty/Accumulation Nexus in the Context of Globalization”

Research on the genealogy of ‘territory’ has stressed how it is a historical question and mutable, this includes work on the making of territory through the ideological centrality of the ‘geo-body’ imaginary of statehood. We examine inherent contradictions, tensions, and alternate meanings within territorial imaginaries drawing largely on Asian examples (though ranging more widely to illustrate the arguments), their constituent sovereignty-scapes and the insurgencies that contest them. This leads us to re-consider literatures on the territorial trap and propose territorial tricks as a metaphor for scrutinizing the nexus of sovereignty and accumulation under conditions of globalization.

#### 10:00 ~ 10:20 am **Presentation 10**

Jim Glassman (University of British Columbia, Canada)

### “The US Developmental State and its Implications for Studies of East Asia”

Chalmers Johnson’s original contribution to the literature on East Asian developmental states, specifically that of Japan, made important contributions to our understanding of the centrality of industrial policy in East Asia. Johnson’s theoretical arguments were founded, however, on an untenable typological distinction between developmental states and liberal regulatory states, with the United States claimed to represent the latter. In this paper I show that (1) the United States has never had a state that corresponds with the ideal type liberal regulatory state and has instead featured its own kind of developmental state; and (2) East Asian developmental states like those of Japan and South Korea have in fact been imbricated with the US developmental state through—among other processes—the activities of the US military-industrial complex. Despite the contributions of Johnson’s developmental state argument, the theoretical weaknesses of that argument are important because most subsequent neo-Weberian theorizations of developmental states have implicitly or explicitly leaned on his untenable typological distinction. Once that distinction is undermined, a number of central neo-Weberian claims about both the capacities and potential futures of developmental states demand revision.

Key words: developmental state, Chalmers Johnson, neo-Weberianism, United States, East Asia

#### 10:20 ~ 10:40 am **Discussion 5**

Greg Sharzer (Seoul National University, Korea)

Q&A40 ~ 11:00 am **Break**

### • Session 6 (11:00 am ~ 12:00 pm)

Moderator: Joo-Hyoung Ji (Kyungnam University, Korea)

#### 11:00 ~ 11:20 am **Presentation 11**

Tae-Gyun Park (Seoul National University, Korea)

### **“The Vietnam War and Developmental States in East Asia”**

This paper investigates the connection between the Vietnam War and the strengthening of the state's control happened in South Korea, Thailand and the Philippines during the late 1960s and early 1970s. The economic boom caused by the Vietnam War and changes in U.S. policy toward Asia triggered a great transition in those three Asian countries sending troops to Vietnam. The regimes in three countries had opportunity to secure themselves by the U.S. assistance from outside, while the economic boom strengthened the internal support for the regimes. In that sense, the Nixon Doctrine provided a breathing space to the regimes in those countries since the doctrine caused the down-size of the U.S. assistance toward the countries. In addition, leaders in South Korea, Philippines and Thailand felt the security threat from the “abandonment” policy of the U.S. The change in U.S. policy through the Nixon Doctrine which weakened engagement of the U.S. played a role as a momentum for the birth of illegal and abnormal totalitarian regimes in those countries at the time. Hence the paper accentuates the national-international linkage in understanding East Asian capitalist development, which is not carefully taken into account by previous studies.

#### 11:20 ~ 11:40am **Presentation 12**

Jim Glassman (University of British Columbia, Canada)

Young-Jin Choi (Seoul National University, Korea)

### **“The Chaebol and the US Military-Industrial Complex: Cold War Geo-Political Economy and South Korean Industrialization”**

Among scholars of East Asia, the role of US military offshore procurement (OSP) and the military-industrial complex (MIC) has been underplayed in explanations of rapid industrial transformation. Yet the foundations of industrialization in places such as South Korea, when analyzed in strongly “national-territorial” and state-centric terms of the predominant neo-Weberian accounts, remain inadequately illuminated. We argue that a geo-political economy approach focusing on the roles of OSP and relations within the US MIC brings to light crucial socio-spatial dimensions of the Korean developmental state's industrial success during the Vietnam War era, dimensions that are largely absent from the neo-Weberian accounts. We examine, in particular, the Park Chung Hee regime's participation in the Vietnam War, and the attendant development of Korean industrial chaebol such as Hyundai, arguing that the successes of the south Korean developmental state and chaebol were enabled by their enrolment in the US MIC, via OSP, making transnational class and geopolitical processes crucial not only in the development of firms like Hyundai but in the development of South Korea's construction industry and overall economy.

Keywords: chaebol, Vietnam War, developmental state, South Korea, offshore procurement

#### 11:40 am ~12:00 pm **Discussion 6**

Keun-Sik Jung (Seoul National University, Korea)

Q&A

#### 12:00 ~ 1:00 pm **Lunch**

#### **• Session 7 (1:00 ~ 2:00 pm)**

Moderator: Jamie Doucette (University of Manchester)

#### 1:00 ~ 1:20 pm **Presentation 13**

Asato Saito (Yokohama National University, Japan)

### **“The Role of Developmental State in the Age of Global City Region and Agglomeration Economy”**

For the last 15 years or so, Japanese government and Tokyo Metropolitan Government emphasized the benefits of agglomeration economy of Tokyo, and shifted their national policy orientation accordingly. The so called ‘state rescaling’ literature provides general structural reason for the new policy direction, such as the need for industrial restructuring and for dealing with the crisis of state legitimacy, but fallen short to specify who are the main agents and why do they promote such a policy. This paper explores empirical account of political struggle and policy coordination between various agents, such as different tiers of government in and around Tokyo, the business community, and local residents whose political orientation varies. The paper, in the process, will also examine the changing role of developmental state. In terms of spatial policy, developmental state in the past supported the idea of ‘even development’ throughout Japanese archipelago. Faced with the new reality of global economy and agglomeration economy, however, spatial orientation of developmental state is not clear, and still to be discovered. It seems to be a crucial question to ask how

developmental state can maintain the legitimacy if Japanese government is forced to promote Tokyo in the expense of other regions.

1:20 ~ 1:40 pm **Presentation 14**

Jung Won Sonn (UCL University of London, UK)

Hyun-Bang Shin (London School of Economics and Political Science)

**“Developmental State with Gangnam Style: Land Dispossession and Capital Accumulation in a Late Industrialisation Context”**

In this paper on analysing the role of the Korean state in promoting urban accumulation in Seoul, we have argued that the state resorted to the use of accumulation by dispossession in a way that reflected the key characteristics of the Korean developmental state. In this process, major construction companies were attracted to the highly speculative commercial housing market. The introduction of high-rise apartments in the 1970s fuelled the accumulation aspiration for both emergent middle class prospective homebuyers and the private builders who took the advantage of the state drive to modernise the country's physical landscape. Without the state intervention in planning through the designation of apartment zones and appointed firm for housing construction, new housing development in Seoul might have spread more or less evenly across the entire space in Seoul. Planning tools such as the density regulations permitted high density development in those exclusive apartment zones in Gangnam. The result was the transfer of unrealised development profits into the zoned space, to be appropriated by the top tier of the newly appointed firms. Small builders were excluded from this opportunity. The accumulation by dispossession in Korea's urban development therefore was depending on the oligo-politisation of rent that accrued to a small number of capitalists. This type of dispossession that involved the transfer of public use rights to private hands took place without violence, largely helped by the exercise of central planning power in the hands of the Korean developmental state.

1:40 ~ 2:00 pm **Presentation 15**

Sanghun Lee (Hanshin University, Korea)

Jung-Pil Lee (Energy and Climate Policy Institute, Korea)

**“Management of Risks in Developmental State: Cases of Location Policies Concerning with Nuclear Power Plants and Production of Risksapes in South Korea”**

The purpose of this paper is to shed light over the unexplored aspect of theories of developmental state focusing on management of physical risks in developmental state using the cases of location policies concerning about nuclear power and the production of risksapes in South Korea. Theories on 'developmental states' have provided useful explanations about the success stories of rapid developed countries within short time. In terms of risk, developmental states also tried to support selective industries to avoid several risks like social and economic risks utilizing various resources. Nuclear power plant was adopted as a tool for promoting industrialization. Thus, it can be said that economic risk derived from insufficient supply of electricity could be managed by developmental state. However, management of the physical or ecological risk from nuclear power plants by developmental state could be evaluated as failure. From early stage of industrialization, South Korea as developmental state tried to manage the risk through producing risksapes with location polices. For a while it seemed to be successful. However with democratization of society, location policy as 'state spatial strategy' which produced risksapes came to face serious challenges from civil society and turned out unsuccessful any more.

Keywords: developmental state, location policy, physical risk, production of risksapes,

2:00 ~ 2:30 pm **Discussion 7**

Laam Hae (York University, Canada)

HaeRan Shin (UCL University of London, UK)

Q&A

2:30 ~ 3:00 pm **Break**

**• Intensive Discussion Session II (3:00 ~ 4:50 pm)**

Moderator: Jim Glassman (University of British Columbia)

4:50 ~ 5:10 pm **Break**

**• Discussion on the Subsequent Workshops (5:10 ~ 6:00 pm)**

Moderator: Bae-Gyoon Park (Seoul National University)

6:30 pm ~ **Farewell Reception**



# About Participants

## Presenters (in alphabetical order)

**Chang, Se-Hoon** is an Associate Professor of Department of Sociology at Donga University in Korea. He received his PhD at Seoul National University in Korea. He had also engaged in National Assembly Library as a legislative senior-researcher for 13 years. His recent research is focused on local politics and social inequality. He has published papers in Korean Journal of Sociology and Space and Society.



**Choi, Young Jin** is a Ph. D Candidate in the Department of Geography Education at Seoul National University in Korea. Her research is focused on the multi-scalar dynamics of Korea capitalist development with the geo-political economic perspective. She published “Revealing difference for Space of Hope: A Comparison of Spatiality of Capitalism between Harvey and Gibson-Graham”, in Journal of the Economic Geographical Society of Korea, Vol 13, No 1, 2010, and coauthored “Failed Internationalism and Social Movement Decline: The Cases of South Korea and Thailand”, in Critical Asian Studies, Vol 40, No3, 2008.



**Do Khue** is a PhD candidate in the Department of International Area Studies at Graduate School of International Studies, Seoul National University (GSIS, SNU) in South Korea. She received her BA in American Studies at College of Social Sciences and Humanities, Vietnam National University in Hanoi, Vietnam. She earned her MA in International Area Studies, American Studies at GSIS, SNU. Her dissertation is titled “The Nixon Doctrine and its impact on the U.S. relations with Asian allies (South Korea, Thailand and the Philippines).” She is studying U.S.-ROK relations, U.S.-Asian allies relations and U.S.-Vietnam relations in modern history.



**Doucette, Jamie** is Lecturer in Human Geography in the School of Environment, Education and Development at the University of Manchester. His work examines the politics of developmentalism and neoliberalism from the perspective of popular democratic struggles over labour, finance, and migration. He has published articles in Transactions of the Institute of British Geographers, Journal of Contemporary Asia, Asia-Pacific Journal, and chapters in the books Missing Links in Labour Geography, and New Forms and Expressions of Conflict in the Workplace.





**Gimm, Dong-Wan** is Researcher of the Environmental Research Institute at Seoul National Uni-



versity in Korea and teaching in University of Seoul as a lecturer. He received his PhD in Urban Planning at Seoul National University after doing his MA and BA in Urban Planning and Physics, respectively, in Seoul National University. He had also been a postdoctoral researcher at the Bartlett School of Planning, University College London. His recent research is focused on the rescaling of state space in geo-historical perspective and the metropolitan governmentality in the East Asian context. He has recently edited a book, entitled “State and region” (in Korean), and published papers in *International Journal of Urban and Regional Research* and *Canadian Journal of Development Studies*.

**Glassman, Jim** is Professor in the Department of Geography at the University of British Columbia,



Vancouver, Canada. He has conducted research on state practices, labor processes, social conflict, and industrial development, in Thailand, China, and South Korea. He is the author of *Thailand at the Margins: Internationalization of the State and the Transformation of Labour* (Oxford University Press, 2004) and *Bounding the Mekong: the Asian Development Bank, China, and Thailand* (University of Hawai'i Press, 2010). He is currently completing a book manuscript on the role of geopolitics in Asian regional development during the Cold War, focusing especially on South Korea, Taiwan, Singapore, the Philippines, and Thailand.

**Jinn-yuh Hsu** received his Ph.D. degree from the University of California at Berkeley in 1997. He



has focused his research on the inconstant geographies of capitalism since he started his dissertation writing in 1995. Dr. Hsu has published a series of papers (both in Chinese and English) on the spatial development of the state project on high technology in Taiwan. He also extended his technopolis research to cover the triangle connection among Silicon Valley, Hsinchu and Shanghai. He expanded his research to examine the spatial politics of state transformation by investigating the Silicon Island Project, a megaproject initiated by the state in the 2000s in Taiwan. Based on the findings, he started a 3-year research project to explore the historical change of special zones, including the Export Processing Zones, Technology Parks and Free Economy Zones, and their geopolitical and geoeconomic implications for the state transformation in Taiwan, in a comparison with the case of South Korea.

**Jessop, Bob** is Distinguished Professor of Sociology at Lancaster University. He is Co-Director, with Ngai-Ling Sum, of the Cultural Political Economy Research Centre at Lancaster. He studied sociology at Exeter University (UK), took his PhD in Economics and Politics at Cambridge University, was a researcher in Social and Political Sciences at Cambridge, then moved to the Department of Government at Essex University. He has also held numerous visiting appointments. His main research interests are state theory, critical political economy, the philosophy of the social sciences, and, most recently, the cultural political economy of economic crises and crises of crisis-management. He has published extensively on these topics and is just coming to the end of a three-year ESRC-funded Research Professorship on the North Atlantic Financial Crisis. Key works include: *The Capitalist State* (1982), *Nicos Poulantzas* (1985), *Thatcherism* (1988), *State Theory* (1990), *The Future of the Capitalist State* (2002), *State Power* (2007); and, with Ngai-Ling Sum, *Beyond the Regulation Approach* (2006) and *Towards a Cultural Political Economy* (2013).



**Ji, Joo-Hyoung** is an Assistant Professor in the Department of Sociology at Kyungnam University in Korea. He received his MA and PhD in Sociology at Lancaster University in the UK after doing his BAs in English and Sociology at Sogang University in Korea. He had previously worked for the Institute of Social Science at Sogang University, the Institute of State Governance at Yonsei University, Acorn Marketing and Research Consultants, Co. Ltd., and the Korean Broadcasting Service in Korea. He is now an advisor to the Global Political Economy Research Institute, Visiting Research Fellow at the Cultural Political Economy Research Centre at Lancaster University, and a steering committee member of Critical Sociological Association of Korea. His recent research focuses on neoliberalism and the state, the neoliberalization of Korean capitalism, and the sociology of sociology and social science. His recent book entitled *The Origins and Formation of Korean Neoliberalism* (in Korean) received Kim Jin-Kyun Prize in 2012.



**Kim, Dokyun** is a research fellow at the Seoul National University Asia Center in Korea. He received his Ph.D in Sociology at Seoul National University in Korea after doing his BA and MA in Mathematics and Sociology in Seoul National University respectively. He also visited Kyoto University in Japan for one year from 2008 to 2009 to participate in the Global COE program. After he finished his dissertation titled with “The Formation and Transformation of the Asset-Based Livelihood Security System in Korea: Savings Mobilization and Tax Politics in a Developmental State” at Feb. 2013, his next research item is to historically compare the East Asian welfare capitalism. He is now struggling to examine how the state’s finance control has affected the making of welfare capitalism in South Korea, Japan, and Singapore. In order to do that, he is especially trying to combine the developmental state studies with the fiscal sociological approach.



**Lee, Jung-Pil** is a permanent researcher in the Energy and Climate Policy Institute for Just Transition



(ECPI) in Korea. He has studied Korean Political Science in Political Science at Sogang University in Korea and worked at the department of local autonomy in the Korea Democratic Labor Party. The ECPI is an independent research institute aiming to transform the current energy-climate politics dominated by the cartel of capital and the powerful into a more democratic one based on social justice. His research is focused on denuclearization-energy transition, climate justice, energy security, energy and climate regime, green welfare, eco-socialism. He has ever written and edited several books, entitled

“Travel for Good Energy”(2010), “Denuclearization”(2011), “Travel for Bad Energy”(2013), “Climate, Agriculture and the Future of Cooperatives”(2013), and translated “Climate Justice”(2012). And he published papers in *Environment & Life*, *The Radical Review*, *Asiatic*, *The Green Review*, etc.

**Lee, Sanghun** is Ph.D. and associate professor in Faculty of Liberal Arts of Hanshin University. He



majored in environmental sociology and political ecology focusing on policy and social movement related to the issues of water, energy and climate change. As he has lots of interest on the spatial dimension of those issues, his research mainly tackles with the spatial implication of the environmental sociological issues. He published several papers and books like “The Discursive Politics of Water: Interurban Struggles in the Nakdong River Catchment in South Korea”, (2002, in English), “Political Economy of Low Carbon Green Growth of MB government”, (2010, in Korean), *Political Ecology of Water* (2003, In Korean), and *Ecologism* (2011, in Korean).

**Lim, Hyun-Jin** is a Professor of Sociology at Seoul National University. He is the President-elect



of Korean Social Science Research Council, and serves as a co-representative of Citizens’ Coalition for Economic Justice. He is also an Adjunct Professor at the Asian-Pacific Studies Institute, Duke University, and sits in the Executive Council of the Society for the Advancement of Socio-Economics. He received his B.A. and M.A. in Sociology from Seoul National University, and his Ph.D. in Sociology from Harvard University. He taught and did research at Korea Military Academy, Harvard University, the University of Chicago, the University of California at San Diego, and Duke University. He was previously the dean of the College of Social Sciences, the dean of the Faculty of Liberal Education, and the director of the Institute of Social Development and Policy Research all at Seoul National University. He served as a member of Presidential Commission for Policy Planning during 2005- 2007, and as a member

of advisory committee for Ministry of Reunification in 2003, Ministry of Education during 2004-2006, and Ministry of National Defense during 2004-2006. At present, he works as an advisory member for Ministry of Foreign Affairs and Trade and Korea International Cooperation Agency, and as a board member of Korea Foundation. In 2007, he was nominated as ‘National Distinguished Scholar’, the most prestigious award in the area of humanity and social science, by both the Ministry of Education and Human Resources, and Korea Research Foundation. He has presented papers at many professional conferences, and has given public lectures on crucial development issues. His publications include more than 40 books and over 200 scholarly articles on dependency, development, democracy, and civil society in East Asia and Latin America.



**Park, Bae-Gyoon** is an Associate Professor of Geography Education in the College of Education at Seoul National University in Korea. He received his PhD in Geography at Ohio State University in the USA after doing his BA and MA in Geography at Seoul National University. He had also taught in National University of Singapore as an assistant professor of Geography. He is now an associate editor of *Territory, Politics, Governance*, a member of the editorial boards of *Political Geography*, *International Journal of Urban and Regional Research*, and *Geography Compass* and the chair of the Academic Research



Committee of Korean Association of Space and Environment Research. His recent research is focused on politics of local economic development and comparative studies on state spaces in the East Asian context. He has recently edited a book, entitled “Locating Neoliberalism in East Asia”, and published papers in *International Journal of Urban and Regional Research*, *Political Geography*, *Economic Geography* and *Critical Asian Studies*.

**Park, Tae-Gyun** is an Associate Professor at Graduate School of International Studies, Seoul National University. He received his PhD in History at Seoul National University with a dissertation entitled “Formation of Korea’s Economic Development Plan in 1956-1964”. His research interests are modern Korean history and Korea’s international relations. He has published numerous journal papers and books on these issues, including *Archetype and Metamorphosis: The Origins of Korea’s Economic Development Plans in 1956-1964* (2007), *Ally and Empire: Two Myths in US-Korean Relationship* (2006), and *Korean War: A War Unfinished, a War That Needs To Be Ended* (2005).



**Saito, Asato** is a professor of urban policy in the Institute of Urban Innovation, Yokohama National University in Japan. He received his MA from the University of Newcastle-upon-Tyne, and PhD from London School of Economics in UK. He had previously held an academic position in National University of Singapore. His research has focused on the impact of globalization and state restructuring upon urban and regional development policy of Japan. His recent publication include “Locating Neoliberalism in East Asia” (coedited with Bae-Gyoon Park and Richard C.Hill), and “Struggling Giants: city-region governance in London, New York, Paris and Tokyo” (written with Paul Kantor, Christian Lefevre, Hank Savitch and Andy Thornley).



**Shin, Hyun-Bang**, BSc (Seoul National University), MSc, PhD (LSE) is a Senior Lecturer (Associate



Professor equivalent) in the Department of Geography and Environment at the London School of Economics and Political Science. He is also an Associate at the Centre for Analysis of Social Exclusion and the Asia Research Centre, LSE and a Research Associate at the White Rose East Asia Centre, University of Leeds. His research largely focuses on critically analysing the political economic dynamics of urban development, with particular attention to cities in East Asia including mainland China. He was one of the key organisers of the Urban Studies Seminar Series (2011-2012), Towards an Emerging Geography of Gentrification in the Global South, funded by the Urban Studies Foundation and the Urban Studies journal. He is also currently involved in URBACHINA,

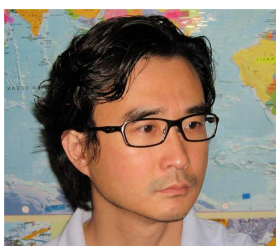
a four-year international research collaboration funded by the EU Seventh Framework Programme (FP7) and in a three-year project (2011-2014) on investigating disparities in South Korea, working with three locally based researchers with the funding support from the National Research Foundation of Korea. He published papers in *Antipode*, *Urban Studies*, *Geoforum* and *City*, and is currently working on various publication projects out of the above projects, including two special issues from the journals *Urban Studies* and *Urban Geography*, a co-authored monograph with Polity Press and a co-edited volume with Policy Press.

**Sidaway, James D.** is a Professor of Political Geography at the National University of Singapore



(NUS). Previously, he was Professor of Political and Cultural Geography at the University of Amsterdam, the Netherlands and prior to that a Professor in Human Geography at Plymouth University, UK. During the 1990s, he was a lecturer at the University of Birmingham, UK. Amongst his scholarly interests are the relations between states, cities and geopolitics, but he also works on the history and philosophy of geographic thought, especially in intersection with post-colonial theory and political economy. Since 2005, he has been an Associate Editor of the journal *Political Geography*. His fieldwork and writing draws on sites in Southern Africa, Portugal and Spain, the multiple borders of the Indonesia-Malaysia-Singapore 'Growth Triangle', Cambodia and the Persian Gulf. For further details, selected recent papers and a full CV, see his homepage at NUS: <http://profile.nus.edu.sg/fass/geojds/>

**Sonn, Jung Won** is a lecturer (the equivalent of Assistant Professor in the UK academic title system)



at Bartlett School of Planning, University College London. He received his PhD in Planning at UCLA after doing his MA in City Planning and his BA in Engineering at Seoul National University. He has been the recipient of such prestigious fellowships as the Benjamin Stevens Fellowship (North American Regional Science Association), the Leverhulme Early Career Fellowship (Leverhulme Foundation) and the Marie Curie Fellowship (European Commission). He serves as an editorial board member of the *International Journal*

of *Urban Sciences* and the *Korean Journal of Economic Geography*. He is also a member of the Advisory Board for the Korean National Assembly's Office of Research Service. His works on geography of innovation in the U.S. and political analysis of urban and regional planning in South Korea have appeared in leading journals such as *Antipode*, *Environment and Planning A* and *Urban Studies* among others.

**Sum, Ngai-Ling** is a Senior Lecturer of the Department of Politics, Philosophy and Religion at Lancaster University. She is Co-Director, with Bob Jessop, of the Cultural Political Economy Research Centre at Lancaster. She studied economics at Birmingham University (UK), took three MA degrees in Hong Kong University and her PhD in Sociology at Lancaster University, was a researcher fellow in Sheffield and Manchester Universities. She has also held numerous visiting appointments in Finland, Sweden and Germany. Her main research interests are regulation approach, East Asian political economy, and, most recently, the cultural political economy of competitiveness, corporate social responsibility, global supermarket chains, and imaginaries crisis recovery (e.g., BRIC). Her has published on these topics and was awarded the British Academy BARDA Award for the work on 'The Changing Cultures of Competitiveness' between 2008 and 2010. Key works include: *Beyond the Regulation Approach* with Bob Jessop (2006) and *Towards a Cultural Political Economy* (2013). She has also published in *Economy and Society*, *Capital and Class*, *New Political Economy*, *Urban Studies*, *Critical Asian Studies*, *Competition and Change*, *Critical Policy Studies*, *Developmental Dialogue* and *Global Networks* as well as edited collections.



**Wang, Jenn-hwan**, chair professor, Graduate Institute of Development Studies at National Cheng chi University, Taiwan. He served as the Dean of Research and Development during 2006-2008 and is currently the director of the Center for China Studies at the same university, as well as the editor of the journal of *Issues and Studies*. Professor Wang is author or editor of 12 books written in Chinese and numerous articles covering issues related to Taiwan's economic development, comparative studies on East Asian societies, and recently on China's development model. His recent publications include *The Limits of Fast Follower: Taiwan's Economic Transition and Innovation* (Taipei: Juliu Books, 2010), *Mainland China and Cross-Strait Relations* (a textbook, published by Taipei: Juliu Books, 2011), and many articles published in international journals such as *International Journal of Urban and Regional Research*, *Pacific Review*, *Environment and Planning A*, *Journal of Development Studies*, *Journal of Contemporary China*, and *Development and Change*. His most recent research project is about environmental (water) politics in China, investigating the overlooked hydro-social contexts in China's economic development. Currently, he serves as the editor of the *Journal of Issues and Studies*, <http://is.nccu.edu.tw/>





## Discussants (in alphabetical order)

**Baek, Seung-Wook** is Professor in the Department of Sociology at Chung-Ang University in Korea.



He received his PhD in Sociology at Seoul National University in Korea. He was visiting research associate at the Fernand Braudel Center at Binghamton University in the USA, assistant professor in the Department of China Studies at Hanshin University in Korea and visiting senior research fellow at the Centre for Global Political Economy at the University of Sussex in the UK. He published many books including *Lecture on the History of Capitalism* (in Korean), *The Chinese Cultural Revolution and the Aporia of Politics* (in Korean and Chinese).

**Cho, Hee-Yeon** is a Professor in the School of Social Science and the NGO Graduate School at Sungkonghoe University in Seoul. Currently he is the Dean of NGO Graduate School at Sungkonghoe University. Outside campus, he works as a Co-representative of National Association of Professors for Democratic Society (민주화를 위한 전국교수協議會).



He is a founding member of People's Solidarity for Participatory Democracy (參與連帶). He has written many books, including "Class and Poverty", "Social Movement and Organizations in South Korea", "The State, Democracy and the Political Change in South Korea", "Park Chung-Hee and Developmental Dictatorship", and "Mobilized Modernization". His book, "Mobilized Modernization", was translated into the Japanese, entitled "朴正熙, 動員された近代化: 韓國, 開發動員體制の二重性".

**Hae, Laam** is an Associate Professor in Political Science at York University, Canada. She has been researching, and writing about, neoliberal urbanization, gentrification, urban political economy and redistributive politics, and cultural politics in the contexts of North American as well as South Korean cities.



**Hsu, Szu-Yun** is a Doctoral student at the Department of Geography, the University of British Columbia, Canada. Her research focuses on critical geopolitics, with particular interest in the intersection between geopolitical and geoeconomic forces, nationalism and economic development. Taking an interdisciplinary approach, her research interrogates the conflicts over trade in the Post-Cold War Taiwan, as well as scaled rearticulation of geoeconomic subject position arising from the interplay between the evolving regional dynamics and domestic social-political struggles.



**Jung, Keun-Sik** is Professor of Sociology at Seoul National University. He is Director of the North east Asia Research Program at SNU Asia Center. He also serves as Chair of the Committee on Environment, Culture and Welfare at the Seoul National University Senate. His main research interests are historical sociology, social movement, and the sociology of body. He has published numerous papers and books on these topics, including *Memories of Struggle and Cultural Representation* (2006), *Daily Life of Colony: Domination and Rupture* (2006), *History of Pain: Memories and Testimonies of Atom Bombing* (2005), *Modern Subjectivity and Colonial Disciplinary Power* (1997), *Formation of the Modern and Local Elites* (1995) and so on.



**Müller, Anders Riel** is a PhD candidate at the Danish Institute for International Studies and at the Department for Society and Globalisation at Roskilde University. His dissertation research focus on food nationalism, food globalization and development in South Korea. He holds an MSc in Environmental, Technological and Socio-economic planning from Roskilde University. Prior to his PhD, he was an advisor on climate change and sustainability to organizations such as UC Santa Cruz, UN Habitat, National League of Cities, Government of Denmark, etc. He is also a Research Fellow with the Institute for Food and Development Policy.



**Shin, HaeRan** focuses on examining the politics of key actors in various development cases, including culture-led urban regeneration, new towns, and risk perception. By taking an actor-focused approach, she explores how specifically different actors form and develop power relations, knowledge mobility, discourses, and adaptive preferences. She also works with immigrants and their receiving communities. She has published papers on those topics in such journals as *Urban Studies*, the *International Journal of Urban and Regional Research*, and *Environment and Planning D*. HaeRan Shin used to teach in the Bartlett School of Planning at University College London, and she will start teaching in the Department of Geography at Seoul National University in South Korea beginning September 2013. She has received her PhD from the University of Southern California.





**Still the Century of Developmental State? :  
A Reflection from South Korean Experience  
in Comparative Perspective**

*Hyun-Chin Lim*

# Still the Century of Developmental State? :

## A Reflection from South Korean Experience in Comparative Perspective

Hyun-Chin Lim

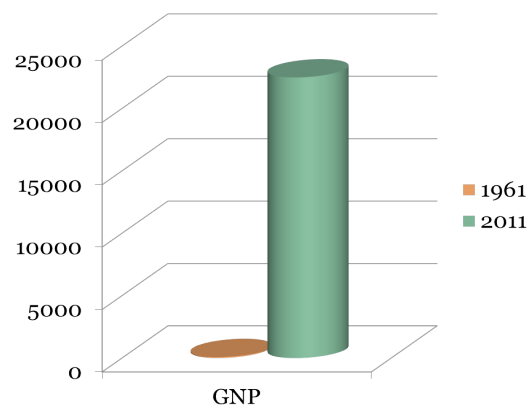
### I. Introduction

- South Korean Economic Success

- Per Capita GNP

- 1961: \$ 81

- 2011: \$22,489



- The secret of economic success in East Asia: Developmental state
- Demise of developmental state
  - \_The rise of neoliberalism
  - \_The economic crisis in 1997
  - \_Inherent structural tendency of corruption, inefficiency and clientelism
- Coming back of developmental state?
  - \_The developmental state as the cause of the crisis ?
    - Developmental state vs. the demise of development state
  - \_The world wide economic crisis of 2007
    - The neoliberalism as the cause of the crisis
    - Relative immune to the crisis of East Asian countries
  - \_Need new model to replace neoliberalism

## II. Theories on East Asian Development

- Market-friendly theory (WB, 1993)
- Industrial policy theory (Johnson, 1982; Amsden, 1989; Wade, 1990)
- Profit-investment nexus theory (Akyz & Gore, 1996)
- Confucian culture theory (Morishima, 1981; Tu, 1984)
- Mainstream academia or international financial organizations

– "Availability of capital, labor, resources, and markets all interacting freely with each other and unconstrained in any meaningful way"

- Developmental state theory

– "The plan-oriented market economy system"

The strong role of the state, efficiency bureaucracy, outward-looking development strategy, unrestriction from organized labor through repression, good education system, outstanding economic performance

Institutional arrangements conducive to development dynamism

Japan as proto-type; S.Korea, Taiwan, Singapore, HK; even China

Chalmers Johnson, 『MITI and the Japanese Miracle』

Amsden (1989), 『Asia's Next Giant』

Robert Wade (1990), 『Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization』

Stephan Haggard (1990), 『Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries』

Meredith Woo (1991), 『Race to the Swift: State and Finance in Korean Industrialization』

Ha-Joon Chang (1994), 『The Political Economy of Industrial Policy』

Peter Evans (1995), 『Embedded Autonomy: States and Industrial Transformation』

Eun Mee Kim (1997), 『Big Business, Strong State: Collusion and Conflict in South Korean Development, 1960-1990』

Linda Weiss (1998), 『The Myth of the Powerless State』

## II. Theories on East Asian Development: The Underlying Nature of Developmental State

### Weberian State Structure Dimension

*DEGREE OF RATIONALIZATION OF STATE BUREAUCRACY*

HIGH

Rational-Legal Bureaucracy

LOW

Patrimonial State

### Marxian Class-State Dimension

*DEGREE OF  
EMBEDDED  
NESS OF  
STATE IN  
CIVIL  
SOCIETY:  
NETWORKS  
WITH  
DOMINANT  
CLASSES,  
ETC.*

HIGH

**Developmental  
State**

**Bourgeois Clientalist  
State**

LOW

**Overdeveloped  
Post-Colonial State**

**Predatory  
State**

### III. Korean Developmental State

- Liberation: 1945
- Establishment of S. Korean government: 1948
- Korean War: 1950-1953
  - \_ Purge of communists
  - \_ Overdeveloped state apparatus
- Student-led revolution: 1960
- Military coup led by Park Chung-Hee: 1961
  - \_ Park Chung-Hee regime: 1961-1972, 1972-1979 : The high time of developmental state
  
- The efficient state-bureaucracy
  - \_ Strategic role in industrial transformation
  - \_ No particularistic interests of the private sector:
    - bureaucrats recruited by civil service exams
    - Embedded autonomy (Evans, 1995)
  - \_ Strategic industrial policy (Chang, 1994)
  - \_ Policy loans (Woo, 1991) for export-oriented economies
    - Soft credits
  
- Weak business elites: Chaebol
  - \_ family-owned and diversified business groups
  
- Banks
  - \_ All nationalized banks under the control of the government
  - \_ Soft credits and policy loans
  - \_ Patient capital
  
- Docile workers
  - \_ Limited labor rights to organize, collective bargaining and strike.
  
- Weak civil society
  
- Implication
  - \_ Different from both a neoclassical free-market system and a dependency de-linking path

#### **IV. Change of the Developmental State: Globalization and Restructuring**

- Quasi Civilian Gov't:
  - \_1980-1987, 1987-1992
  - \_Pressure from U.S.A for liberalization of finance and direct investment
- Kim Young Sam Regime:
  - \_1993-1997
  - \_Segyehwa: Voluntaristic globalization led by the government
- Kim Dae Jung Regime:
  - \_1998-2002
  - \_Economic crisis and neoliberal reform demanded by IMF
- Roh Mu Hyun Regime:
  - \_2003-2007
  - \_Continued neoliberal reform

#### **IV. Globalization Drive (Segyehwa)**

- The Kim Young Sam regime
  - \_Feb. 1993 - Feb. 1998
  - \_The first civilian government since the early 1960s
  - \_ "Fundamental change" was attempted via Segyehwa
- "New Korea"(shin han'guk) Project
  - \_To cure the "Korean disease" from the authoritarianism of the past years
  - \_To upgrade status and role of Korea in international stratification system
  - \_Started with a bang but ended with a whimper

#### **IV. Result of Globalization Drive**

- Excessive financial liberalization
  - \_ Capital-market opening
  - \_ A series of deregulation for international capital flows
  - \_ No control of government in borrowing short-term loan
  
- Lost control tower of economy
  - \_ Merger of the EPB (Economic Planning Board) and the MOF (Ministry of Finance) into the Ministry of Finance and Economy in 1994
    - The stop of the EPB's decade-long role in the development planning
    - Weakened developmental strategy in the making of industrial and financial policies
  
- Result
  - \_ Financial meltdown in the crisis of 1997

#### **IV. Increasing pressure for the restructuring**

- Failure of Success? (-1997)
  - \_ Changing power relationship between the state and civil society
    - Growth of working class and middle class due to the result of economic growth
    - 'June Offensive' in 1987
  
- Increased American educated bureaucrats and scholars
  - \_ Calling for the introduction of “market principle”
  
- Diversifying interests of business elites
  
- Evaluation
  - \_ Not yet enough to challenge against developmental state

## V. Economic Crisis and Crisis Management

- External shock on the developmental state
  - \_Financial Crisis in 1997
    - \$58 billion emergency bail-out from IMF
    - \_The developmental state blamed as a cause of crisis
      - Symbol of cronyism
      - All illness of economy from developmental state
- Alternative: Neoliberal reforms
  - \_Liberalization, privatization and deregulation
  - \_Restructuring in business, finance, labor, state enterprises
- President Kim Dae Jung (DJ)
  - \_1998-2003
- Crisis Management
  - \_Neoliberal reform without reservation
  - \_Revising macroeconomic coordination
    - No designing and implementing it in a long-term perspective
    - A neocorporatist tripartite partnership among labor, management and government
- Roh Moo-Hyun's Presidency : 2003 – 2008
  - \_Dramatically elected president and favoring economic equality, shared growth
  - \_Passive neoliberal reform
    - Growing foreign influence
      - \_The market share of foreign investors in the Korean stock exchange:  
40% (2004)
      - \_Global investors' signals to the domestic economy became more important
    - Importance of "economy"
      - \_High-ranking public officials in economic ministries and bureaucracies became more powerful than those in the welfare and other related offices



## VI. Deepening Globalization and Backlash

- Lee Myung-Bak's Presidency: 2008 – 2012
  - \_Former CEO (Hyundai Construction Co.)
  - \_Benefiting from people's disappointment with Roh government
    - Centrist liberal democratic government's inability to improve socio-economic conditions
  - \_Market-friendly economic policies
    - Growth-oriented policies and the idea of the free market economy
    - Hard push of chaebols; revival of authoritarianism?
  - \_Strengthening globalization
    - Lowering the import standard in Korea of US beef to G. W. Bush, without referring to domestic democratic procedures
    - Privatization of SOEs drive
  
- Legitimacy crisis
  - \_Citizens' candlelit vigils in 2008
    - 'Direct action democracy'
  - \_Government's resorting to authoritarianism
  
- Backlash
  - \_People's huge sympathy with Roh's death in May-June, 2009
  - \_Defeat of governing party in the local election in 2010

## A Synopsis of the South Korean Case

<p><b>Kim Young Sam</b> (1994-1997)</p> <p><i>Segyehwa</i> Drive Structural Adjustment</p> <p>→</p> <p>Globalization</p>	<p><b>Kim Dae Jung</b> (1998-2002)</p> <p><i>DJnomics</i></p> <p>→</p> <p>Neoliberal Reform</p> <p>Tripartite Commission</p>	<p><b>Noh Mu Hyun</b> (2003-2007)</p> <p>Passive Neoliberalism and Global Integration</p> <p>→</p> <p>Change of the Developmental State</p>	<p><b>Lee Myung-Bak</b> (2008-2012)</p> <p>Deepening Global Integration</p> <p>→</p> <p>Revival of Developmental State?</p>
			<p>→</p> <p><b>?</b></p>

## VII. Resurge of Developmental State?

- Neoliberalism challenged

- \_ World Financial Crisis of 2007-2008

- Actually, the crisis of U.S.A and European economy

- Early bounce back of Asian economy from recession: China, Korea, Taiwan, Singapore

- \_ Growing discontent on neoliberalism

- Neoliberal restructuring exacerbates labor flexibility and social inequality

- Discussion on the alternative to neoliberalism

- \_ Davos Forum (2012)

- The Great Transformation: Shaping New Models

- \_ Capitalism 4.0

- Anatole Kaletsky

- \_ The State Capitalism

- Ian Bremmer

## VII. Post-developmental State Theories

Elinor Ostrom, 1990, 『Governing the Commons』

Shin & Chang (2003), 『Restructuring Korea, Inc』

Ha-Joon Chang (2010), 『23 Things They Don't Tell You About Capitalism 』

Peter Evans (2010), "Capacity is development"

Anatole Kaletsky (2010), Capitalism 4.0

Ian Bremmer (2009), 『The End of the Free Market: Who Wins the War Between States and Corporations?』

## VII. Resurge of Developmental State?

- Main Arguments

- \_Revival of traditional developmental state: No
- \_Coming of post-developmental state: Possible
- \_What kind of state: ?
- \_mercantilist -> neoliberal developmental state
- state ability to implement policies limited by globalization

- Kahler's 'orthodox paradox'

\_ "the state has to increase its capacity to correct market failures, while the state itself should be revamped to further as an institution builder."

- All the authoritarian states are not developmental

- \_Developmental state is not necessarily based on the coercive power
- \_The main feature that differentiates developmental state from authoritarian state is the infrastructural capacity

- Demand for the active role of government

- \_Path dependency
- \_Needed to play active role of the state
  - Defend national interests against globalization pressures
  - Social provisions
  - Conflict management
  - National security
  - Boosting economic dynamism
  - \_21st Century is knowledge-based information society
  - \_Increase demand for the public goods such as education, health, and housing

- Negative factors

- \_Pressures of globalization:
  - Weakening role of the state
- \_Development and Democracy
  - The importance of democratic consensus building
  - Growing role of business elites, reduced government bureaucrats
  - Empowered labor and social movement groups

- How?
  
- Utilizing strength of old developmental state model
  - \_The Korean state is still strong
    - ex.) Financial Supervisory Service
      - \_Controlling all financial institutions
      - \_All governors have been former bureaucrats
  
- Identifying problems and setting agenda
  - \_Social provision
  - \_Conflict management
  - \_National security
  
- Coordinating business and society to achieve national goals
  - \_Boosting economic dynamism
  
- Curing old shortcomings of the system
  - \_New paradigm: State embedded in society and business together
    - Complementary combination of competent, coherent public bureaucracy and dense ties to civil society actors and business groups

## VIII. Implications

- Power shift from Europe to Asia

- \_The rise of China

- East Asia

- \_Excessive nationalism, chauvinism, militarism

- \_History distortion

- \_Territorial disputes

- \_Increase in armaments

- Developmental state: methodological statism

Regional community building

- \_ASEAN, - +3, - +6, ARF, APEC

- East Asia

From conflicts and antagonism to reconciliation and cooperation

- \_同舟共濟 – 共生發展

- Still strong in mobilizing resources and people

- Expansionary tendency

- \_Post-developmental state embedded in regional stakeholders

# **The Developmental State in an Era of Finance-Dominated Accumulation**

*Bob Jessop*

# The Developmental State in an Era of Finance-Dominated Accumulation

*Bob Jessop*

Interest in the historical specificity of states and their involvement in accumulation is reflected *inter alia* in work on the developmental state in East Asia and, in Latin America, on the dependent capitalist state (Woo 1991). Three approaches predominated in general accounts of East Asian economic growth in the 1980s and 1990s.<sup>1</sup> These were the market-centred, developmental state, and culturalist theories. The first is closely related to the neo-liberal policy orientation of the International Monetary Fund (IMF) and the World Bank. It is based on neoclassical theory. This argues that ‘the market takes center stage in economic life and governments play a minor role’ (World Bank 1993: 82), that the most efficient allocation of resources will only occur if market forces are allowed free play and if the state has a minimalist, night-watchman role in economic development. Whilst correctly rejecting the idea that there is a single East Asian export-oriented economic growth model, the World Bank argued that, in all cases, states skilfully tapped the private sector’s strengths. The basic mechanisms were: (1) a virtuous cycle of high investment, high economic growth, and high savings rates; (2) good quality labour and an increasing labour participation rate; and (3) rising production efficiency based on import of foreign capital and technology (World Bank 1993). Criticizing this approach, developmental state studies argued that East Asia’s ‘economic miracles’ depended crucially on wide and effective state intervention, targeted industrial policies, and the primacy of substantive criteria of economic performance over the formal rationality of market forces and its associated market imperfections and failures. The third explanation invokes specific cultural factors and is exemplified by – but certainly not limited to – the confused, overextended idea of ‘Confucian capitalism’. None of these accounts is satisfactory individually and, together, they reproduce the problematic liberal conceptual triplet of market-state-civil society. This poses the question of whether an alternative approach to economic development and social formations might provide a more powerful and comprehensive account of the East Asian economic miracles, crisis-tendencies, and crisis recovery. This is one of the tasks to be pursued in this contribution to our workshop.

## The Other Canon

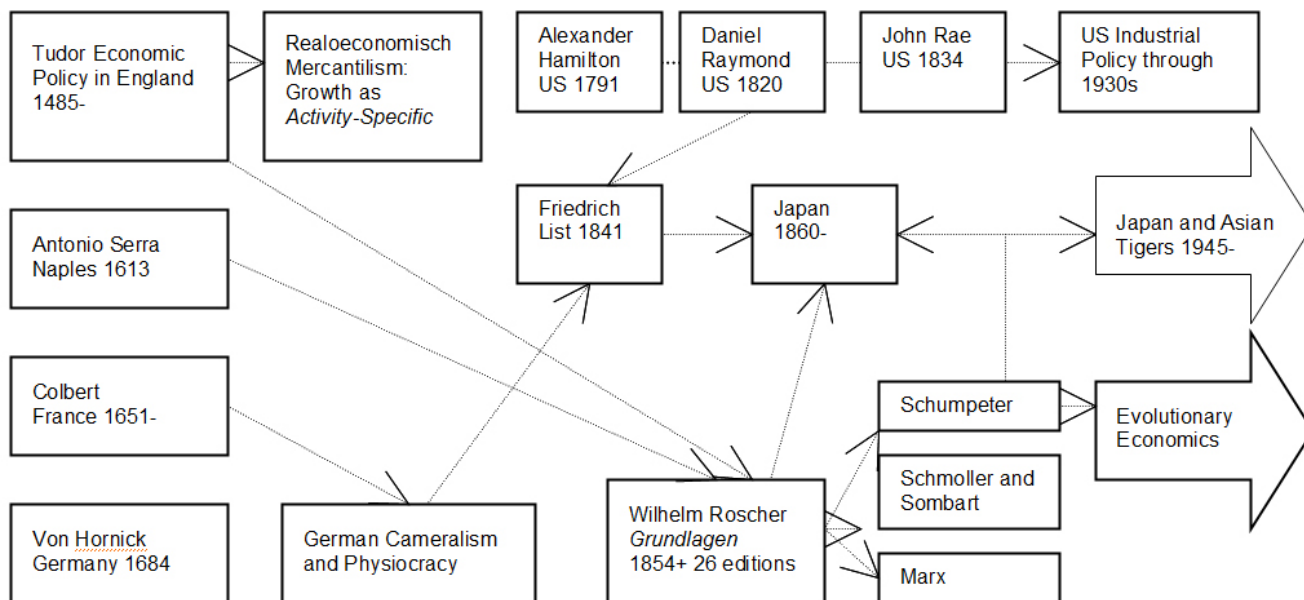
Interestingly and importantly, the basic idea behind the developmental state (DS) as a theoretical and policy paradigm dates back at least to the early nineteenth century with Frie-



drich List's work on state policies to promote 'catch-up' competitiveness, initially in the German-speaking world, then in the USA (where he spent some years in exile), in France (where he was also became a sojourner), and, following his return to Augsburg, in Germany again. List's influence was part of a synergetic co-evolution of German and American theoretical and policy paradigms in political economy that continued throughout the nineteenth century. His ideas were also taken up in Russia and Japan. Indeed, during the 19th century, most US and Japanese economists were trained in German economics. Sometimes they learnt this tradition through their own graduate studies at German-speaking universities, sometimes through professors who had studied at them. This developmental state approach was oriented not just to issues of political economy, influenced by mercantilist and cameralist ideas, but also to questions of national security.

These ideas were already common in Continental Europe and can be traced back to the commercial city republics of the Italian Renaissance, the Tudor Plan in England (oriented to catching up with Burgundy, which had grown rich by transforming imported English raw materials), the United Provinces (later to become the Netherlands), France (in the form of Colbertism), and German-speaking political regimes. Mercantilism, cameralism, and enlightened despotism<sup>2</sup> were the defining features of economic-cum-political governance in this 500-year period but became increasingly marginalized as a canon with the rise of vulgar political economy, neo-classical economics, and the liberal principles of free trade. In contrast to these dominant doctrines, this marginalized 'other canon' emphasized the complementarity of economic and political development and the crucial role of the state (to be interpreted as political society + civil society or, better, government + governance) in technological, economic and social development.

Nineteenth-century variants of the 'other canon' rejected what was becoming the orthodox view that underdevelopment was just a question of incomplete modernization to be remedied by adopting the dominant economic doctrines and prevailing policy prescriptions advocated in the leading economies. It focused instead on the question of how emerging, developing, or peripheral economies could enhance their position in a world economy and inter-state system imprinted (and thereby transformed) through the path-modifying rise to dominance of the leading economies (for historical examples, see Figure 1). This meant that successive latecomers had to find their own path to economic development corresponding to new periods and conjunctures. Unsurprisingly, the economic doctrines, development strategies, and state projects associated with the developmentalist canon have changed over the last 500 years and, especially in the light of claims about the crisis or demise of the developmental state in the last 30 years or so, we must be sensitive to the changing world-historical conjunctures and institutional contexts within which catch-up strategies can be pursued. This is a key theme of this contribution.



**Figure 1. The Knowledge- and Production-Based Canon of Economic Thought**

Source: elaborated from Reinert

The concept of the developmental state was first applied explicitly to Japan, starting with Johnson (1982). It was then adopted for first-generation late-industrializing East Asian economies, and has since been applied to other continents (e.g., Latin America, Europe, Africa) and to scales of economic and political organization that are local, regional, or even supranational (e.g., the European Union), wherever the state has actively pursued economic growth without a fetishistic commitment to liberal markets and free trade. Indeed, moving beyond comparative analysis to questions of policy, the myths of the Japanese state proved popular in Western Europe and North America during the early years of Fordist crisis as a progressive reformist paradigm to challenge bankrupt economic strategies.

The immediate context of the identification of this concept was the post-WW2 era of Atlantic Fordism. It was allegedly associated with an investment-led neo-mercantilist strategy oriented to import substitution and export-led growth in the context of the Cold War and concerns with national security. The relevance of this model was already being questioned in the 1990s following the crisis of Atlantic Fordism, the collapse of state socialism in the Soviet Bloc (and the end of the Cold War), and the rise of neoliberalism and the Washington Consensus. The crisis of Fordism led to the emergence of the knowledge-based economy, for a time, as the hegemonic economic imaginary – an imaginary which was allegedly more suited to a network economy, network state, and network society rather than a developmental state (cf. Castells 1996). In this context, the old institutional separation-cum-articulation between market and state was redefined – if not superseded – through a mix of neo-liberal reforms (‘more market, less state’), new forms of governance (‘less market, more networking’), and state rescaling and restructuring (a different kind of state). The end of the Cold War and the turn from Maoism to Dengism in the People’s Republic of China also weak-

ened the tolerance of the US superpower for developmental states whose growth would strengthen national security and legitimate capitalism. The shift in economic orthodoxy linked to the rise of neoliberalism, the training of economists and officials from developmental states in neo-classical economics, and the development of the Washington Consensus (especially in the IMF and World Bank) undermined the legitimacy of the developmental state model and prompted demands to downsize the state and limit its functions in more market-conforming ways.

While the post-Fordist theoretical and policy paradigm of the knowledge-based economy provided a potential means to reorganize and reorient the developmental state, the development of a finance-dominated accumulation strategy seemed to point in the opposite direction. Even in this regard, however, some states that sought a place in a changing world market organized increasingly in the shadow of financialization, reinterpreted their development strategies around this mode of growth. In addition, the experience of the IMF (or ‘Asian’) crisis and, more recently, the contagion effects of the North Atlantic Financial Crisis (sometimes misleadingly labelled the ‘global financial crisis’) have also shown that an important role remains for states, both in defending their economic spaces against financial contagion, and, equally importantly, in positioning these spaces in relation to the rebalancing of the world market that has followed the crisis in the North Atlantic region. For these and other reasons, then, it makes sense to revisit the concept of the developmental state, to offer a periodization of its stages over the *longue durée*, to consider its crisis-tendencies in different periods, and to examine how the developmental state has been re-interpreted during the last 20, 15, and 5 years in response to economic crises at the national, regional, and global levels. This is the aim of my contribution.

### **Friedrich List and His Precursors**

The developmental state can be defined as a form of state that promotes catch-up development in a world economy dominated the logic of profit-oriented, market-mediated accumulation and benchmarks this goal relative to the leading economies within the prevailing spatio-temporal horizons of the time. This does not involve imitation, i.e., copying the policies that these economies are currently pursuing or hypocritically advocating for developing economies, but the elaboration of the strategies and policies needed to reach this level of development within the current division of labour in the world economy. This implies that there is no single ‘best practice’ model of the development state. The relevant model varies with the stage in the development of the world market, with the dominant strategies to secure competitive advantage, and with state capacities. Without taking the analysis further back than the Italian Renaissance, the first developmental states were Italian city-states seeking to emulate the leading city-states (notably Venice).

The first national DS was Tudor England, which pursued a coherent mercantilist strategy (notably under Henry VII and VIII). Other major DS were the United Provinces (the northern part of the Spanish Netherlands, which become the Netherlands), whose government consciously emulated the Italian city-states, and Colbert's France (reflected in the distinctive mercantilist programme known as Colbertism) (cf. Reinert 1995, 2010). An important negative reference point, juxtaposed to successful economic development, was the decline of Spain, despite its privileged access to the gold, silver, and other riches of the Spanish colonies (cf. Perrotta 1993: 19).

Two later examples of developmental states, particularly pertinent for present purposes, are the German states from the mid-1800s to the 1914-18 World War and the United States through the nineteenth century (on the US case, see, for example, Hamilton 1791).. Andrew Hamilton, the first US Secretary of the Treasury, developed a plan to industrialize the United States that deployed the same theoretical arguments current in Continental Europe and quite recent in England. Hamilton advocated bounties and incentives to manufacturers to be financed from the tariffs imposed on the import of manufactured goods (Hamilton 1791).<sup>3</sup> Japan developed the state capacities to become a developmental state (modelled on Prussia more than the USA) in the late nineteenth century after the Meiji Revolution but these capacities were only fully deployed after the 1939-45 World War (Reinert 1995; Johnson 1982). Kemalist Turkey after 1933 (when the first 5-year plan was introduced) could also be added to the list of developmental states that existed before the concept was introduced (cf. Bayar 1996). Summarizing the economic doctrines and strategies of developmental states (under the rubric in this case of developmentalism), Erik Reinert suggests that their primary objective is 'to diversify the economy out of a dependency on agricultural and other raw materials alone' (if necessary through exploitation of the agricultural sector) and to increase national wealth 'by building a diversified industrial structure where economic activities with large potentials for technological upgrading, subject to increasing returns (falling unit costs), and important synergies (linkages) between a large variety of economic activities play an important role' (Reinert 2010).

The leading edge of economic thought following the rise of classical political economy, especially in the eighteenth century, was increasingly oriented to the emerging capitalist world market and the defence of colonialism. It was linked to Ricardian international trade theory and the notion of static comparative advantage, and, hence, to the strengthening of a global division between economies with abundant raw materials and cheap labour and economies with money capital and advanced technologies. Friedrich List (1789-1846) was a prominent critic of this hegemonic economic paradigm and addressed his arguments to informed public opinion with a view to shaping economic strategies in less developed economies. In this regard he argued that the appropriate catch-up competitiveness strategies were mercantilist trade policies, protection of infant industries against premature competition, and a strong cameralist state able to dismantle internal barriers to mobility, trade, and communication

(e.g., outdated skills, inadequate infrastructure, tariff barriers). Whereas classical political economists tended to have experience in commerce or aligned themselves with it, List, like other cameralists (from Kammer, i.e., public treasury), had a background in public service and was oriented to the tradition of enlightened economic, political, and social governance. The cameralist tradition was concerned at one and the same time with economic development based on industrial import substitution, export-led growth, and state- and nation-building (Perrotta 1993; Schmoller 1897/1976; Tribe 2008). List nonetheless accepted the liberal principle that, once catch-up had occurred, a shift towards free trade among equally developed economies would be appropriate. Otherwise free trade would promote the world domination of the most advanced economies and block the development of semi-peripheral and peripheral economies.

First presented in exile in *Outlines of American Political Economy* (1827), inspired by the mercantilist economic growth in the USA, List's ideas were elaborated into a general theory in *The National System of Political Economy* (1837/1841). This analysed economic development as a series of stages of agricultural, manufacturing and commercial activity. Building on a distinctive account of the international division of labour, List divided the world into temperate zones naturally oriented towards manufacture, and hot zones with a natural advantage in the production of agricultural goods. Against arguments for colonialism, he claimed that balanced development of the world economy requires that national economies in the temperate zone be in equilibrium with each other and that they neither singly nor jointly exploit the lands of the hot zone, which would otherwise become dependent on manufacturing powers. A key theme throughout his work was an emphasis on technology and production and, especially, the importance of specific national endowments and institutional arrangements. In this regard his work differed from the prevailing liberal paradigm with its emphasis on commerce, trade and purely quantitative analysis.

In the language of the Amsterdam School of transnational historical materialism, the Listian or, more generally, developmentalist approach corresponds to a productivist rather than liberal 'proto-concept of control'. These are ideal-typical depictions of the 'spontaneous' or self-evident interests of a given fraction of capital and how to secure them in different economic, political, and social fields. The liberal concept of control prioritizes the maximum mobility of money as capital in the world market and is oriented to exchange-value. In contrast, the productivist concept is concerned with the material nature of production and use-values and reflects the interests of industrial capital, which more often needs to valorize a given set of specific assets in a particular space and time. Amsterdam scholars then consider more concrete, historically specific, 'comprehensive concepts of control' that unify the ruling class and attract mass support and can become hegemonic insofar as they combine mutually compatible blueprints for handling relations among various fractions of capital and for conducting labour relations (van



der Pijl 1984: 31; 1998: 3-8). These relations are hard to handle because they involve social contradictions and stability depends on constructing a 'general interest' (formulated from a particular fractional vantage point) that transcends narrowly defined fractional interests and, above all, 'combines mutually compatible strategies in the field of labour relations, socio-economic policy and foreign policy on the basis of a class compromise' (Overbeek 1990: 26; 2004: 118, van der Pijl 1998: 4-8). Although this School has largely focused on Atlantic Fordism, its crisis, and the rise of neo-liberalism, the productivist proto-concept of control and its elaboration into more comprehensive concepts are also applicable to the developmental state when adapted to the historical and geo-political specificities of cases where catch-up competitiveness prevails. This includes the nature of class fractions, the forms of class alliance within the power bloc, the social bases of the state (which, in non-democratic regimes, were not necessarily widespread mass bases), and the changing world market.

### **Revisiting the Concept of the Developmental State**

In previous work I have critiqued the developmental state paradigm on conceptual and theoretical grounds because of its unfortunate embrace of the reified distinction between market economy and sovereign territorial state. Naïve versions of the developmental state paradigm suggest that national sovereign states did not passively support the operation of the invisible hand of market forces but actively guided economic growth, especially through top-down, plan-rational, 'industry-specific policies'. More sophisticated versions do not treat the state as a rational, unified actor but consider state power as an institutionally-mediated condensation of a changing balance of forces oriented to the creation and deployment of state capacities. From this perspective the developmental state can be interpreted in terms of the activities of operationally autonomous state managers (who may nonetheless have important institutional, organizational, and ideational links to forces beyond the state, including beyond the boundaries of the state) who orchestrated a changing balance of markets, networks, and government controls to pursue substantive economic goals within a broader national state project. This general usage highlights the state's operational autonomy in the pursuit of substantive local, regional, national, indeed, quasi-continental economic interests – corresponding respectively to, for example, developmental city-states (Singapore), regional developmental states (the Third Italy), national developmental states (Japan, South Korea), and the European Union (e.g., Delors' growth strategy from 1983 or the Lisbon strategy in 2000). It also poses questions about the conditions that sustain this operational autonomy and the state's ability to strike the right balance between cooperation and competition in response to domestic and external challenges. The DS concept also serves to distinguish such autonomy from predatory states (extractive, underdeveloping), rentier states (extractive, developing), and weak states (lacking capacities to secure all or most of the typical economic, political, and social functions of normal states) (Evans 1989; Weiss 1998).

Nonetheless, while the original theoretical paradigm was conceptually rigorous and carefully grounded (see especially Johnson 1999), there is also a derived DS policy paradigm with its own mythologies that has been used to justify and guide specific economic and political strategies. This was adapted to the second-generation ‘catch-up’ industrial development in East Asia and has been advocated for third generation newly industrializing East Asian economies and other economies too. As such it can easily lead to the celebration of the developmental state’s capacities and over-identification with its managers. Lie suggests that this explains why, ‘[i]n spite of Amsden’s success in demolishing the market myth, ... she ends up buttressing another: the self-congratulatory self-image propagated by the architects of Korean economic strategy’ (1991: 68-69).

The uneasy, ill-defined relationship between theoretical and policy paradigms has led many commentators to exaggerate claims about the autonomy of the DS and to sacrifice theoretical and empirical rigor for the sake of critiquing market-friendly accounts of the East Asian miracle and/or the subsequent ‘Asian crisis’. In this respect, the DS literature came to share some features of the neo-classical economic approach that it was criticizing. This raises several theoretical and empirical problems. Specifically:

1. Both the neo-classical and developmental state policy paradigms reify and naturalize the institutional separation between economy and state – seeing this as inherent in modern societies. The former offers a market-based explanation for the economic miracle, argues that state managers are inherently self-interested ‘rent-seekers’ who are best excluded from detailed economic decision-making, and suggests that economic success is everywhere dependent on the emancipation of market forces. The statist version of the DS paradigm inverts this model, suggesting that state managers correctly judged how to get prices ‘wrong’ and also pursued a complementary and changing package of policies so that they could guide the market in an export-oriented strategy based on ‘dynamic growth efficiency’ rather than simple allocative efficiency. Yet neither a simple neo-classical position nor the simple developmental state explanation can reveal the complexities of relations between the economic and the extra-economic and their extensive interpenetration in the East Asian exportist mode of growth in structural and strategic terms alike. They fail to see that the division between market and state is a problematic, socially constructed, and unstable feature of certain capitalist regimes and, indeed, one that may be altered, manipulated, and mystified as social forces seek to encourage or prevent the combined deployment of economic and political resources and capacities in pursuit of specific objectives (Mitchell 1999; Larner and Walters 2002).

2. The state is seen as both institutionally distinct and operationally autonomous from the wider society, enabling it to impose its will on society from outside and above. Thus the DS policy paradigm and naïve versions of the DS theoretical paradigm both incline

towards a state-centrist rather than relational approach to state capacity and power. State capacities are explained in terms of properties of the state apparatus (such as bureaucracy) and/or state managers (such as their technocratic expertise) without regard to the specific balance of social forces that enabled an embedded state autonomy (Jessop 1990; Evans 1995; Weiss 1998). These accounts focus on practical aspects of DS intervention and ignore the economic, political, and social conditions that enabled such conduct and policies. Crucial here were the fit between DS extractive, penetrative, and discursive powers and the susceptibility of the economy and/or civil society to the exercise of these powers; and the state's ability to project its power through alliances with forces beyond the state. They also neglect the role of contradictions and conflicts in producing losers as well as winners, whether by design or unintentionally, from DS strategies and policies.

3. In this sense, DS analysis is too economistic – it focuses on economic growth defined in general quantitative terms rather than the specific qualities of accumulation regimes and it neglects the embedding of the pursuit of growth in broader economic, political, military, and societal strategies. It therefore seeks to explain an apparently anomalous 'economic miracle' in terms of the particular features of an equally anomalous state apparatus and thereby ignores how far economic growth outside East Asia displays analogous modes of regulation. For the allegedly exceptional statist features of East Asian NICs can also be found elsewhere in cases of rapid economic growth, if not as such, then at least in substantially equivalent form.

4. To avoid these problems it is important to develop the strategic-relational claim that the state is a social relation. It is not an entity in its own right – whether docile instrument or rational subject. It is an ensemble of power centres and capacities that offer unequal chances to different forces within and outside the state and that cannot, qua institutional ensemble, exercise power. Its powers (always plural) are activated in specific conjunctures through the agency of definite political forces, who will usually attempt to take account of the prevailing and, perhaps, future balance of forces within and beyond a given state. How far and in what ways state powers (and any associated liabilities or weak points) are actualized depends on the action, reaction, and interaction of specific social forces located within and beyond this complex ensemble. Thus, like 'capital', the state is 'a relationship of forces, or more precisely the material condensation of such a relationship among classes and class fractions, such as this is expressed within the State in a necessarily specific form' (Poulantzas 1978: 128-9). In other words, state power (not the state apparatus) is a form-determined condensation of the changing balance of forces in political and politically-relevant struggle. How significant this differential impact on political forces' capacity to pursue their interests will depend on the nature of their goals, strategies and tactics. Exploring states like this does not exclude (indeed, it presupposes) specific state-produced and state-mediated structures and processes. The form and dynamic of political struggle is typically relatively autonomous from other sites and forms of struggle. But politics must be put into its broader social context and to



the strategic choices and conduct of particular actors in and beyond states (Jessop 2002, 2007). This implies that the developmental state should be analysed not just from the viewpoint of state managers but in terms of the coalition of forces that shape accumulation strategies and state projects and in terms of the social bases of the state. These are not necessarily confined within (let alone co-extensive with) the territorial boundaries of the state but involve different forms of social exclusion as well as extra-territorial (transnational) social forces.

Overall, then, the first- and second-generation DS paradigm tends to exaggerate the autonomy of East Asian developmental states because its more naïve theorists and policy advocates believe that this is what distinguishes them from more liberal, pluralistic Western political systems. They thereby overlook the actual roles of Western states at all stages in capitalism (including periods of relative *laissez-faire*, which is itself a distinctive form of state intervention, as well as the more obviously interventionist periods of mercantilism, imperialism, and the Keynesian Welfare National State) and the conditions that shape and limit the state's operational autonomy and state capacities in different contexts. This in turn leads DS theorists to treat phenomenal features, which were possible in special contexts and make sense in relation thereto, as the 'essence' of the East Asian developmental state. This is correlated with another problem: the implicit claim that market-centred theories hold for Western societies. This suggests that early industrializing Western economies followed a market-centred path of growth, while late industrializing East Asian economies followed a state-centred one. But the state has played key roles in both contexts and it is generally true that, the later a country embarks on the path of capitalist development, the stronger is the need for state intervention for making capitalist accumulation successful (cf. Gerschenkron 1962). This was emphasized in the other canon (see above) but marginalized in mainstream economic theory.

To overcome these problems, we must rethink the relation between the economic and the political without engaging in reification and zero-sum thinking; analyse the specificities of accumulation regimes and their modes of regulation rather than study quantitative trends; adopt a relational analysis of the state and state power; and explore the contradictions, dilemmas, and crisis-tendencies of the 'miracle' as well as the continuing strengths of the post-crisis period. This is one way to avoid the risk of equally one-sided analyses of the pre- and post-crisis periods – either exaggerating the success of the former and failures of the latter or interpreting the past as pathological and the future as a new start if only the 'right' policy choices are made. This would provide the means to think about earlier periods where the 'other canon' (developmentalism) prevailed and informed more or less successful catch-up competitiveness strategies based, as Reinert puts it, on the following principles:

- 1) National wealth cannot be created or based on raw material production in the absence of a manufacturing/increasing returns sector.
- 2) An inefficient manufacturing/increasing returns sector provides a much higher standard of living than no manufacturing sector (Reinert 2004).

The capacity to compete is grounded in diverse sources of competitiveness, both economic (broadly considered) and extra-economic. As the forms of competition and the sources of competitiveness change, strategies for catch-up competitiveness should also change. This raises the question whether increasing return activities may shift partly from manufacturing to services and, in particular, whether financialization can provide the basis for developmental state strategies. A related question is whether the state and state power are self-identical through time or different kinds of state and state power are appropriate to different kinds of catch-up strategy.

### **The Listian Workfare National State**

To address these issues more concretely, I distinguish four aspects of state involvement in securing capitalist economic growth. The first is the broad field of economic policy in securing conditions for profitable private business. This matters because market forces alone cannot secure these conditions and must be supplemented by non-market mechanisms. This is related to the distinction between competition in market exchange and competition in the organization of production – with increasing returns to scale depending not only on the size of the market tied to price competition but also to increasing returns to scale grounded in the disruptive, creatively destructive, effects of entrepreneurship in dynamic markets. This distinction is conventionally associated with Joseph Schumpeter (1934, 1943). He argued that entrepreneurship disrupts equilibrium through the ‘creative destruction’ of innovation, and that this process constantly alters the pace and direction of economic growth. But the Listian analysis of catch-up competitiveness involves its own forms of dynamic allocative efficiency based on switching investment into sectors and clusters that offer increasing returns to scale, especially when this occurs within an increasingly integrated national market protected by neo-mercantilist policies and measures until returns to scale are achieved.

The second aspect is the broad field of social policy. This refers to the state’s roles in reproducing labour power individually and collectively from everyday routines via individual life-cycles to intergenerational reproduction. It matters because labour power is a fictitious commodity. Although it is bought and sold in labour markets and may add value in production, it is not itself directly (re)produced for private profit by capitalist firms. Labour-power enters the market economy from outside and is embodied in individuals who are more than just workers. This poses economic problems over its individual and collective suitability to capi-

tal's needs and its own survival without a secure income or other assets; social problems such as social inclusion and cohesion; and political problems regarding the legitimacy of state intervention in this area and its relation to other identities that workers may have. In the context of catch-up competitiveness, labour repression may play a key role in the early stages of Listian development. Whether labour repression can be maintained when a transition from investment-led to innovation-led growth occurs is a moot point, with contrasting lessons from Japan and South Korea compared with the PRC.

The third aspect refers to the main scale, if any, on which economic and social policies are decided – even if underpinned or implemented on other scales. This matters because economic and social policies are politically mediated and the scales of political organization may not match those of economic and social life. While highlighting the scalar division of labour and the possibilities that the most elevated scale is not the dominant scale of policy-making, this dimension can be extended to include the more general question of multi-spatial metagovernance.

The fourth aspect concerns the relative weight of the mechanisms deployed in the effort to maintain profitability and reproduce labour-power by compensating for market failures and inadequacies. Modes of governance are especially relevant here – although they are also involved in the other dimensions too. Top-down state intervention is one of several governance mechanisms; and states as well as markets can fail. This suggests the need for other flanking mechanisms and, insofar as these also fail, for attention to the relative balance.

Adopting these distinctions, I now introduce the concept of the Listian Workfare National State (LWNS). Each of its component terms highlights one of its distinctive features and therefore ignores any generic properties the LWNS may share with other types of state insofar as they are also states in capitalist societies. Thus this concept ignores the generic concern of such states with general macro-economic fundamentals and institutional conditions favourable to accumulation as opposed to their adaptation to the distinctive goals and functions of the LWNS. I do not claim that this analysis exhausts all the EANICs' distinctive economic, political, and social features. The four terms correspond to the four dimensions of the state's economic and social functions outlined above.

First, in promoting the conditions for profitable accumulation, the LWNS is distinctively Listian insofar as it aimed to secure economic growth through export-led industrialization from an otherwise relatively closed national economy and did so mainly by combining catch-up supply-side interventions and neo-mercantilist demand management. Invoking Friedrich List's name here is not a Eurocentric conceit but reflects the real

influence of his mercantilist approach in Japan and then in other East Asian economies embarking on catch-up development (List 1856; see also Cumings 1999; Weiss 1998). This corresponds to the importance of merchandise trade as their key economic driver during the take-off and consolidation phases of each EANIC's respective economic miracles. Moreover, even though Hong Kong was more Ricardian and laissez-faire, even here the colonial government used critical economic levers, most notably its control over land supply and the property market, to guide economic growth (Sum 1994).

Second, in reproducing labour-power as a fictitious commodity, LWNS social policy displays a distinctive workfare orientation. This can be seen in the following features of state policy: (a) limiting wage costs qua cost of production; (b) investing in human capital; (c) promoting personal savings as a means of securing the reproduction of labour-power over the life cycle; (d) encouraging limited forms of occupational welfare for core workers at factory-level as a means of reducing overall pressure on wage demands; and (e) promoting forms of collective consumption favourable to the exportist growth dynamic with its base in a virtuous circle of export expansion and reinvestment of export earnings in the next generation of capital goods. In certain conditions this orientation also involves repression of organized labour not only to contain labour costs but also to limit political opposition in a national security state.<sup>5</sup>

Listian Workfare National State			
Distinctive set of economic policies	Distinctive set of social policies	Primary scale, if any, for policy-making	Main means to compensate market failure
Catch-up export-led industrial growth based on supply-side policies and neo-mercantilism	Wage as cost of production, labour as human capital, high savings, occupational welfare, collective consumption for exportism	Primacy of national scale. National economy governed by 'national security state'. Nationalist basis of state-building	Government as primary mechanism. Secondary role for extended family and 'civil society'
<b>Listian</b>	<b>Workfare</b>	<b>National</b>	<b>State</b>

Third, the LWNS is national insofar as economic and social policies were pursued within the historically specific (and socially constructed) matrix of a national economy, a national state, and an imagined national community. National security discourse, institutions, and practices affected all three of these elements of the national spatio-temporal fix. Neo-mercantilism was an important basis of economic security; the national state was a national security state; and a strong nationalist ideology was developed to counteract challenges from divided societies (Korea, Taiwan, Singapore, and Hong Kong) or the Cold War (Japan). This contrasts with earlier colonial periods (e.g., Taiwan and Korea under Japanese rule, Singapore and Malaysia under British rule) and the subsequent post-national period associated with the new dialectic of globalization-regionalization. Thus, within the prevailing scalar matrix, it was the national territorial state that mainly assumed responsibility for developing and guiding Listian workfare policies. Local states in Taiwan and South Korea acted mainly as relays for policies framed at the national level; and the various international regimes established after

WW2, the Chinese revolution, and the Korean War were mainly intended to restore stability to national economies and national states within the orbit of the Western bloc under US hegemony.

Fourth, the LWNS was statist insofar as a strong national security state and its institutions (on different levels) were the chief means to guide and supplement market forces in securing the conditions for economic growth and social cohesion. The discourse of national security was particularly important in legitimating the state's role in this regard and, in particular, in justifying the subordination of market forces to state guidance even before there was much evidence of 'market failure'. And, where such legitimacy was rejected, the security discourse justified the repression of dissent and organized opposition, including the labour force. Indeed, for this reason, Hee-Yeon Cho (2000) prefers the term Listian Warfare National State for the early period in South Korea and Taiwan. Returning to my main theme, given the residual nature of social policy and the limited institutional separation of the economic and political in still modernizing societies, a major secondary role fell to the extended family, *guanxi*, and other institutions of 'civil society' in the shadow of the state (see, for Hong Kong, Sum 1997).

Reinert notes that an important difference between East Asian and Latin American developmental states is that, whereas the former temporarily protected and targeted largely indigenously developed or indigenously improved technologies for the world markets, the latter permanently protected technologies that were largely imported, for small local markets. Hence Latin American industrialization was much less advanced and more shallow – based on the imports of semi-manufactured goods – and much less able to compete internationally. East Asian bureaucrats also tended to place rigorous demands for technological and economic performance on the local companies they were supporting, an aspect largely absent in most of Latin America. Brazil and India represent intermediary cases, with characteristics of both these groups of nations. However, even in the least successful cases of Developmentalism in Latin America, real wages were considerably – sometimes up to 100 per cent – higher than they are today after structural adjustment (Reinert 2010).

The concept of LWNS is primarily state-oriented. It tells us little about the specific institutional and spatio-temporal fixes with which the Listian Warfare National State is associated, especially as the global division of labour in the world market and the leading edge accumulation strategies change. I will address this issue in two steps. Step one involves adopting a regulationist perspective in which I move beyond a state-centric analysis of the LWNS by focusing on the five structural forms conventionally identified in the Parisian regulation approach. Step two considers the specific institutional and spatio-temporal fixes involved in managing the inherent contradictions and crisis-ten-



dencies of the capital relation.

The early Parisian regulation school considered how capitalism and its contradictions were regulated through specific structural forms and institutionalized compromises in different stages of capitalism. Studies decomposed the capital relation into a series of structural forms, each of which has its own characteristic contradictions and dilemmas, requiring specific forms of regulation. These are conventionally described as the wage relation (individual and social wage, wage form, lifestyle); the enterprise form and competition (internal organization, source of profits, forms of competition, ties among enterprises and/or banks); money and credit (form and emission, banking and credit systems, allocation of capital to production, national currencies and world monies, and monetary regimes); the state (institutionalized compromise between capital and labour, forms of state intervention); and international regimes (trade, investment, monetary, and political arrangements that link national economies, nation states, and world system). The choice of these forms reflects the institutional configuration of Atlantic Fordism in a specific world-historical context rather than a generic set of forms applicable for all accumulation regimes (Röttger 2003).

In these terms, first, regarding the wage relation, export-oriented growth prioritized the wage as an international cost of production rather than as a source of domestic demand. This was reinforced where the wage relation could be subordinated to an exportist and workfarist (rather than welfare) logic through a strong national security state that also restricted opportunities for labour organization to struggle for workers' economic, political, and social rights. Hee-yeon Cho writes in this context of 'an authoritarian developmental mobilization regime' (2000). Nonetheless, as incomes rose in line with export earnings (if not always in line with productivity, as in the Fordist model), there was increasing pressure as well as scope to expand domestic demand for better housing and more consumer durables. Mass consumption began among the middle classes and later spread to organized labour. This created in turn the basis for the emergence of fractions of capital oriented to mass consumption-led domestic growth. This trend was especially clear in first generation NICs in East and South East Asia (South Korea, Taiwan, Hong Kong, and Singapore) compared with the second generation (Thailand, the Philippines, Malaysia, Indonesia).

Second, enterprise competition was balanced by cooperation. Sometimes the state and/or peak organizations promoted extensive 'pre-market' collaboration; sometimes firms divided markets to reduce wasteful competition in favor of 'catch-up' development. Small and medium enterprises were also integrated into larger supply chains managed by domestic conglomerates or overseas buyers (and, at least in the Singaporean case, state-sponsored foreign multinationals) (on commodity chains, see Gereffi and Korzeniewicz 1994). Such forms of cooperation-competition were crucial to the exportist dynamic based on flexible imitation, technological, process, and product innovation, and, eventually, movement up the world

technological and product hierarchy. States can steer the contexts in which enterprise networks and the triple helix of business, universities, and government agencies cooperate but cannot control it the process as a whole in a top-down manner.

Third, the catch-up strategy privileged credit allocation for long-term growth and subordinated allocation of national money (and international aid or loans) to investment rather than consumption. This required a strong developmental state and/or close coordination between banking and industrial capitals mobilized behind the national economic strategy. Any liberalization of the supply and demand for international credit would have threatened this key pillar of the LWNS – especially in EANICs without strong prudential banking controls – as would the expansion of major conglomerates abroad through the building of a regional division of labour and/or their transfer of R&D and FDI to Europe and North America.

Fourth, the Listian workfare strategy required a strong ‘developmental state’ and/or close and continuing co-ordination between banking and industrial capitals (keiretsu, chaebol, KMT-capital and state capital, Singaporean state-owned banks and holding companies) mobilized behind the national accumulation strategy. A key element in the DS’s transformative capacities was the economic and political logic of ‘national security’ and its reflection in ‘exceptional forms’ of state (military dictatorship, formalized or de facto one-party rule, etc.) justified by states of emergency. Hong Kong differed because of its continued post-war colonial domination and more Benthamite approach to governance and security. In all cases, however, state insulation from popular control would be undermined by the decline of perceived security threats and continued economic growth, which raised expectations about mass consumption and democratic participation among later generations.

Finally, still arguing in regulationist terms and turning to international regimes, we should note the privileged position of the EANICs in the Cold War and the massive inflow of military aid and other subsidies from the USA as part of its Cold War economic, political, military, and ideological strategy.

The next step is to move from static comparative analysis based on the five structural forms to a more dynamic analysis oriented to the inherent contradictions and crisis-tendencies of the capital relation. This makes it easier to distinguish the specific institutional configurations corresponding to growth regimes other than Atlantic Fordism, especially where they involve strong elements of political capitalism (Weber 2009). Weber distinguished in this context profits made from three kinds of political activities: profits from force and domination, profits from financing political undertakings (e.g., financing political parties, lobbying activities), and profits from unusual deals with political authority).

There are elements of all three in the LWNS and developmental states more generally.

To develop these ideas we can draw on Pascal Petit's regulationist argument that one structural form will predominate in each period or accumulation regime and thereby shape its institutional dynamics (1999). Elaborating this proposal, we could say that the dominant structural form is the one linked to the principal contradiction in a given period or regime. I propose that one way to distinguish modes of growth is in terms of how they handle contradictions and dilemmas in terms of (1) the hierarchization of contradictions (treating some as more important than others); (2) the prioritization of one aspect of a contradiction rather than another; (3) temporalization (switching between a focus on one aspect to the other as one becomes more urgent or crisis-prone); and (4) spatialization (allocating the handling of different contradictions and their aspects to different scales, networks, or sites of action). Thus one can study the principal contradictions of a mode of growth together with their primary and secondary aspects when they are *en régulation* (relatively stable and reproducible), how this configuration displaces and/or defers for a while the inherent contradictions of the capital relation and, indeed, contributes to the typical crisis-tendencies of a given mode of growth, and how the primary and secondary aspects of contradictions and the overall hierarchy of contradictions change when a mode of growth is in crisis. A useful insight in this regard is Robert Boyer's distinction between stable and transitional periods. He suggests that, in periods *en régulation*, the dominant institutional form is the one that constrains the covariation of other institutional forms and thereby secures their complementarity or coherence. For Atlantic Fordism, claims Boyer, this was the wage-labour nexus. In transition periods, however, the dominant structural form is the one that imposes its logic on the others – without this ensuring coherence among all five institutional forms, at least in the short-term (2000: 291). He suggests that, 'in the 1990s, finance appeared to govern the dynamics of other institutional forms' (Boyer 2002: 320) and, indeed, that a deregulated, internationalized, and hyper-innovative financial system had destabilizing effects on other structural forms (Boyer 2002, 2004, 2012).

Drawing on these arguments, I further suggest that, whereas the economic dynamic of periods of stability rests on complementary institutional hierarchies and institutionalized compromise, periods of instability involve disruptive institutional hierarchies and struggles to roll back past compromises and establish new ones. In both cases, thanks to the presence of multiple contradictions and dilemmas, agents are forced, willingly or not, to prioritize some over others. This is not a neutral technical matter but is essentially political and often the focus of struggle. This is especially evident in periods of economic crisis, which provoke restructuring through the normal working of market forces as well as through more deliberate, typically contested, attempts to restore the conditions for differential accumulation, often through institutional innovation and efforts to modify the balance of forces. This may include changes in the priority of opposing aspects of a contradiction as the previously secondary aspect becomes more urgent and/or in the sites and scales on which contradictions



are handled and dilemmas are juggled. These issues become even clearer when there is a crisis of crisis-management, i.e., when conventional ways of dealing with crisis no longer work well, if at all. And this holds particularly when it is the dominant contradiction that generates the most severe challenges and destabilizing, disorienting effects. This will vary with the accumulation regime and its mode of regulation and the shifting conjunctures of a variegated world market.

Table 1 summarizes some of the key features of catch-up competitiveness associated with the LWNS in the post-war period. It can be re-specified for earlier examples of the developmental state reviewed above, taking account of the different stages in the development of the world market, different state capacities, and different leading edge technologies and accumulation regimes.

<b>Table 1: Catch-Up Competitiveness</b>				
<b>Basic Form</b>	<b>Primary Aspect</b>	<b>Secondary Aspect</b>	<b>Institutional fixes</b>	<b>Spatio-temporal fixes</b>
State	Strong state that guides investment-led growth	'Legitimation through national security and continuous growth	Authoritarian Listian Workfare National State	Nation- and state-building and/or national security
Capital	Productive capital in given (national) time-place	Mobility of capital within monopoly complexes	State-monopoly complexes and revolving doors	National economy-national state-economic security
Competition	Catch-up to bench-mark sectors and economies	'Race to bottom' + effects of creative destruction	Pre-market collaboration, then competition	Create and protect national market as basis for exports
(Social) wage	Cost of international production	Source of national demand	Occupational and family (asset-based) welfare	National reskilling plus global war for talents

<b>K E Y</b>		Principal (or dominant) structural form		Secondary structural form
		Primary aspect of principal form		Primary aspect of secondary form
		Secondary aspect of principal form		Secondary aspect of secondary form

### **Crisis-Tendencies of the LWNS<sup>6</sup>**

There was never a pure LWNS. Japan, Taiwan, South Korea, and Singapore had their own distinctive accumulation regimes and modes of regulation that combined the four features of the LWNS with other functions, scales of action, and modes of governance. Later EANICs also have their own specificities. Nor has there been a pure crisis in and/or of the LWNS – let alone one that issued identically in the 'Asian crisis'. There were only specific, path-dependent, nationally variable crises of variable scope, intensity, and

duration. In some cases, one finds greater continuity, linked to the dominance of the view that there was a crisis in the prevailing form of the LWNS, with required only incremental shifts to move towards a new post-developmental regime (e.g., Singapore, Taiwan); in others, greater discontinuity prevails – especially in declared policy changes rather than actual outcomes – linked to a discursively-constructed domestic crisis of the DS, to the constraints linked to accession to the World Trade Organization, and, post-crisis, to externally reinforced imposition of domestically promoted radical restructuring (e.g., South Korea). Even in Korea, Thailand, and Indonesia, there are significant continuities.

The export-oriented LWNS system had its own vulnerabilities and crisis-tendencies on each of its four dimensions. First, as export-led growth continued, it became harder to maintain the relative ‘structured coherence’ of the EANICs’ modes of growth and régulation. The neo-liberal promotion of global flows of disembodied capital and domestic de-regulation had a particularly adverse impact on the regularities secured by the national institutional and spatio-temporal fix of exportism and the LWNS paradigm. Internal pressures also developed to adopt more Schumpeterian (innovation and competitiveness-oriented) forms of economic intervention and workfare – either through gradual adaptation of the DS in alliance with producer interests, local authorities, and the wider research community or through its more radical neo-liberal rollback. Second, rising personal incomes and popular demands for social welfare weakened the effectiveness and acceptability of the initial workfare regime. This was further weakened by its inability to produce a sufficient quantity and quality of skilled knowledge workers able to contribute to the necessary upgrading of the national economies. Third, the coherence of the economic core and the primarily national matrix of regulation that had permitted concerted state guidance were both challenged by growing interest in promoting inward and outward direct investment as well as a regional division of labour that stretches production networks across national border. Fourth, there were growing external pressures to ‘rollback’ the DS through such measures as privatization, liberalization, de-regulation, market proxies, reduced taxes, and an opening to foreign direct investment. This arose in different ways – through preparing to meet the free trade requirements of WTO entry, through the impact of the Asian crisis, or simply through massive trade dependence on US markets that made export-oriented economies vulnerable to American pressure to adopt neo-liberal measures favourable to US interests.

Responding adequately to these four sets of pressures would have required major institutional changes in the economy and state that would inevitably threaten certain sectors of the dominant economic and political elites and thereby destabilize the hegemonic constellation and its power bloc within and beyond the state. Not all states had the institutional capacities and balance of forces to resolve the resulting economic and political institutional crises – Japan is the most notorious example of state failure in this regard, despite its continuing export competitiveness in many industries (whether Abenomics will be genuinely transformative remains to be seen). Among first-generation EANICs, South Korea was particularly

affected in the early to mid-1990s by the rise of strong neo-liberal currents among the chaebols and US-trained economic mandarins and attempts to rollback key elements in the inherited LWNS model. Second-tier East Asian NICs were particularly hard-hit by the economic crisis because of their much faster catch-up process, more rapid integration into the emerging regional as well as global division of labour, greater economic, social, and political stresses due to uneven development, and greater vulnerability to large and sudden inflows (and outflows) of short-term, speculative capital. They also had less effective state capacities.

‘Globalization’ did not affect all East Asian economies in the same ways. But we can note two general sets of factors that were mediated through the private more than the public sector. First, there were growing cost pressures as they competed with each other and even newer NICs in the region (such as China and Vietnam) for market share, sought to cover the costs of new rounds of investment and technological innovation, tried to cope with a rising real effective exchange rate both against the dollar, to which national monies were pegged, and, more seriously, against the yen (which was then depreciating against the dollar), and addressed workers’ demands for higher wages and social welfare benefits. And, second, there was the de-stabilization of national systems of credit allocation through the attempted global imposition of liberalization and deregulation, the use of short-term dollar-denominated foreign credits to finance long-term investment, the additional inflow of short-term speculative ‘hot money’ and resulting excess liquidity, and the search for easier profits in land, property, and stock market speculation (not to mention intensified political corruption) as compared to industrial production. In general, the free movement of global capital made the East Asian economies (especially second-tier NICs) increasingly vulnerable to currency speculation even though many still had what orthodox economists usually call strong underlying ‘fundamentals’, namely, high domestic savings, budget surpluses, low inflation, and good growth prospects. Unsurprisingly, then, the crisis itself was triggered by the collapse of financial bubbles previously generated by hypermobile speculative capital (aided and abetted, of course, by some local economic and political forces) rather than by long-term balance of trade problems. And it was those EANICs that had embarked on liberalization and hence weakened of their LWNS capacities that proved most vulnerable to the impact of such hypermobile speculative capital.

Hong Kong, Singapore, and Taiwan had the strongest trading accounts and foreign exchange reserves and were less affected than South Korea, which had severe short-term debt problems and a deeper-rooted institutional crisis. Singapore and Taiwan were also protected by strong prudential controls over the allocation of credit; and Hong Kong benefited from background financial and political support from the People’s Republic of China, which had no interest in a spectacular collapse of the Hong Kong economy so soon after its return to the motherland. Second-tier NICs (notably Thailand, Indonesia,

Malaysia, and the Philippines) suffered even more from acute pressures of foreign debt and domestic institutional crises. The 'IMF-3' (South Korea, Thailand, and Indonesia) were initially drawn furthest into the 'illogic' of globalization due to the IMF and World Bank's 'neo-liberal' conditionalities and structural adjustment programmes. But, after the initial shock, South Korea adopted a reinvigorated neo-statist strategy oriented to a knowledge-based economy. More generally, there has been growing interest in initiatives on a regional scale, beginning with the deepening of the intra-regional division of labour and associated intra-regional trade and, perhaps, despite initial IMF and US opposition, towards a relatively 'dollar-free' regional currency regime.

### **Recalibrating Developmental States versus Post-Developmental States**

The problem of reinvigorating and reregulating accumulation after the Asian crisis involved more than finding new ways to manage old contradictions in the same spatio-temporal and institutional matrix. The relevant spatio-temporal dynamics and contexts also changed, the inherited forms of the DS were in crisis, new accumulation strategies and state projects emerged and became dominant, and, in this context, different contradictions and dilemmas became primary compared to the LWNS period. Moreover, far from being purely regional, the crises of exportism and the LWNS are closely linked to the exhaustion of the Atlantic Fordist growth dynamic to which EANIC exportism was closely tied. The coherence of nationally-based spatio-temporal fixes has been undermined by internationalization and increased time-space compression. As yet, there is no new primary scale around which the old and new contradictions of capital accumulation can be readily managed – not even the triad scale or new virtual triads like the BRIC(S). Instead we are witnessing a struggle among different social forces to establish their own preferred scales of organization as the primary level on which a new fix will emerge and/or to establish new multi-level governance mechanisms which will challenge the primacy of the national state. This is reflected in the more general problem of securing consensus around a new accumulation strategy and its appropriate mode of regulation and linking this to broader state projects and hegemonic visions within societies affected by the impact of the IMF crisis and the more recent contagion effects of the North Atlantic Financial Crisis. Although the national scale remains significant for the EANICs, there is also increasing interest in post-national economic and political strategies ranging from enhanced cross-border cooperation to the widening and deepening of the regional division of labour and even the development of a corresponding regional financial order to reduce dependence on the US-dominated global financial system.

Following the crisis of Atlantic Fordism and its global repercussions, two rival accumulation strategies emerged and got consolidated. These are the knowledge-based economy (KBE) and finance-dominated accumulation (FDA). Interestingly, while the KBE imaginary was selected from diverse neo- and post-Fordist economic visions and translated into policies,

it was not always retained and institutionalized as the basis for a stable post-Fordist accumulation regime at a national level. There are nonetheless some local, regional, and cross-border examples and it still figures in national policy discourse (e.g., in South Korea, with its Ministry of the Knowledge Economy, 2008-2013, recently replaced by the Ministry of Trade, Industry and Energy). Instead, for economies undertaking a neoliberal regime shift, it was finance-dominated accumulation that came to dominate – even though no widely-accepted economic imaginary explicitly advocated this. This poses a crucial question about the ‘disconnect’ between (1) the emergent hegemony of the KBE imaginary, actively promoted by the OECD (and equivalent bodies) and adopted at many sites and scales around the world; and (2) the increasing weight of finance-dominated accumulation in differential accumulation on a global scale such that crises in this mode of growth have destabilized and disrupted the KBE strategy.

### **The Knowledge-Based Economy**

The ‘KBE’ represents a new economic strategy that is sponsored by local, regional, and national states, international bodies (including the Asia-Pacific Economic Cooperation and ASEAN as well as the more global organizations such as the OECD, World Bank, and WTO), and leading corporations. The KBE is allegedly marked by the growing application of knowledge to the production of knowledge in developing technology, process, and products and by the growing importance of knowledge and knowledge work in shaping the relations of production (Jessop 2002). In addition, the ‘KBE’ has become significant in accumulation strategies on almost all scales from the local to the global as well as for firm and sectoral strategies. This reflects both a general response to the maturing of advanced capitalist economies (rooted in the typical shift from investment- to innovation-driven growth) and a specific response to crises in the exportist mode of growth in the EANICs. This transition is said to involve wide-ranging economic, political, and social reorganization and is linked to a new vision of social life (Jessop 2002). This said, the transition to a KBE strategy in the EANICs involves a restructuring of ‘developmental states’ rather than an active rolling back or a benign neglect that allows them to wither away. For the state is still a key mediating force in an ongoing re-articulation of capital’s economic and extra-economic moments that goes well beyond a simple recalibration of market and state.

The two principal (or dominant) structural forms in the KBE are capital and competition. The primary aspect of capital is the valorization of the general intellect in the form of knowledge- and design-intensive commodities (real or fictitious). This involves the production, management, distribution, and use of knowledge as a key driver of economic growth, wealth generation, and job creation across the private, public, and ‘third’ sectors. In a true KBE, it is suggested, knowledge is applied reflexively to the production



of knowledge and most sectors tend to become more knowledge-intensive. As such it could potentially help to lower socially necessary labour time, socially necessary turnover time, and, through bio-tech, naturally necessary reproduction times. KBE discourse can be translated into many visions and strategies (e.g., smart machines, expert systems, knowledge transfer, creative industries, intellectual property rights, lifelong learning, e-government, smart weapons, the information society, and cybercommunity). It can also be pursued at many scales (firms, organizations, cities, regions, nations, supra-national regions, transnational institutions, etc.). While it tends to favour productive over money capital, it has sometimes been inflected in a neoliberal manner that highlights the role of market forces as the driving force behind innovation.

As indicated above, such KBE strategies would require structural transformation and strategic reorientation in the articulation of the profit-oriented, market-mediated economy and the developmental state. This has already been reflected in measures to make the wage relation more flexible, to reskill and upgrade the workforce (including through the global war for talents), to liberalize the national money form to integrate it more closely into the circuits of international currency, and to facilitate the movement of liquid capital. This is clearest where US-dominated international institutions imposed their preferred neo-liberal form of after-crisis restructuring and/or supported domestic forces that had been calling for neo-liberalism.

Among the specific functions that the state might perform in the KBE are: (1) managing the tensions between intellectual commons and intellectual property and orchestrating the de- and re-commodification of knowledge in this context; (2) re-designing the relationship between the economic and extra-economic in the light of the changing forms of competitiveness associated with the knowledge revolution, reflexivity, and learning; (3) guiding the interlinked processes of de- and re-territorialization and de- and re-temporalization associated with new forms of time-space distantiation and time-space compression in order to create a new spatio-temporal fix for capital accumulation; and (4) addressing the political and social repercussions of the new phenomenal forms of capital's basic structural contradictions and strategic dilemmas.

Table 2: Knowledge-Based Economy

Basic Form	Primary Aspect	Secondary Aspect	Institutional fixes	Spatio-temporal fixes
Capital	Valorize design- and knowledge- intensive capital	Capital as intellectual property	Competition state plus moderate IPR regimes	Knowledge-intensive clusters, cities, regions

Competition	Innovation-led, Schumpeterian competition	“Race to bottom” + effects of creative destruction	Wider and deeper global investment, trade, IPR regimes	Complex + multi-spatial with local and regional forms
(Social) wage	Production cost (for mental as well as manual labour)	Source of local or regional demand (hence flexible)	Flexicurity aids demand and global competitiveness	Controlled labour mobility, globalized division of labour
State	Competition state for innovation-led growth	‘Third Way’ policies to cope with new social exclusion(s)	Schumpeterian Welfare Post-National Regime	Multi-scalar meta-governance (e.g., EU type “OMC”)

The basic features of the KBE can be presented in the same terms as those used to analyse catch-up competitiveness above (see Table 2, which uses the same colour coding as Table 1 – as do subsequent tables).

To illustrate the potential continuity between the developmental state and the KBE, let us take South Korea’s Ministry of Knowledge Economy. The knowledge economy is said to embed traditional goods and services with a premium derived from greater levels of research and innovation intelligence. The MKE is turning its focus to promote the production of these globally-competitive, value-added goods and services. Different from other economic models which rely primarily on natural resources or manpower, knowledge will be the primary engine of productivity and growth for the Korean economy. At its core, the Ministry strives to assemble traditional industrial know-how, cutting edge R&D, and strong pro-business policies.

The Ministry also pushes for development of new growth engines by supporting Information and Communications Technologies (ICT) and high-end manufacturing. It also promotes foreign trade, pursues Foreign Direct Investment (FDI), and champions efficient markets. Furthermore, the Ministry is mandated to engage in energy cooperation projects, expand renewable resources and distribution networks, and craft environmentally-friendly economic policies (based on an EU summary, [http://erawatch.jrc.ec.europa.eu/erawatch/opencms/information/country\\_pages/kr/organisation/organisation\\_0008](http://erawatch.jrc.ec.europa.eu/erawatch/opencms/information/country_pages/kr/organisation/organisation_0008); cf. <http://www.youtube.com/watch?v=Y-42BYiOd9c>).

More generally, the Asian crisis prompted a reevaluation of the LWNS strategy of the developmental state based on investment-led competitiveness and prompted a turn to KBE strategies. This was not a radical rupture in Japan or the first-generation EANICs because they had already embraced the ideas of the information economy, the information society, national systems of innovation, and the learning economy. Thus we find a wide-ranging set of institutional, policy, and discursive changes in government and governance. Symptomatic of this reorientation are South Korea’s strategy to become a knowledge-based economy, endorsed by the OECD and World Bank; Taiwan’s commitment under the DP to become a ‘Green Silicon Island’ based on the KBE, sustainable



development, and social justice and its promotion of an ‘e-Taiwan’ project to build e-business, e-government, and an e-society; Singapore’s strategy to become an ‘Intelligent Island’; Malaysia’s ‘2020 vision’ and master planning to move from a production-based economy to a ‘K-economy’; and, albeit more rhetorically, Hong Kong’s recent strategy (recommended by scholars and consultants affiliated to MIT) to become a knowledge-based economy specializing in knowledge-intensive business services for the Pearl River Delta (on this, see Sum and Jessop 2013). Despite the similar timing in East and West, Asian models and strategies tended to be more comprehensive, going beyond ICTs to broader economic and, even more importantly, extra-economic dimensions of innovation-led growth (for an outline of information economy strategies in the 1990s, see Ducatel, Webster, and Herrmann 2000). The key conclusion from this period, however, is the key role of economic narratives and imaginaries in identifying turning points and/or crises and reorienting technology, industrial, and wider-ranging economic policies.

### Finance-Dominated Accumulation

The other main strategy that emerged in the aftermath of the crisis of Atlantic Fordism was finance-dominated accumulation.

Table 3: Finance-Dominated Accumulation  
en Régulation?

Basic Form	Primary Aspect	Secondary Aspect	Institutional fixes	Spatio-temporal fixes
Money / Capital	Fast, hyper-mobile money as general form (+ derivatives)	Valorization of capital as fixed asset in global division of labour	De-regulation of financial markets, state targets price stability, not jobs	Disembled flows from national or regional state controls; grab future values
(Social) wage	Private wage plus household credit (promote private Keynesianism)	Reduce residual social wage as (global) cost of production	Numerical + time flexibility; new credit forms for households	War for talents + race to bottom for most workers and ‘squeezed middle’
State	Neoliberal policies with Ordoliberal constitution	Flanking plus soft + hard disciplinary measures to secure neoliberalism	Free market plus authoritarian “strong state”	Intensifies uneven development at many sites + scales as market outcome
Global Regime	Create open space of flows for all forms of capital	Dampen uneven growth, adapt to rising economies	Washington Consensus regimes	Core-periphery tied to US power, its allies and relays
Global Regime	Create open space of flows for all forms of capital	Dampen uneven growth, adapt to rising economies	Washington Consensus regimes	Core-periphery tied to US power, its allies and relays
(Social) wage	Production cost (for mental as well as manual labour)	Source of local or regional demand (hence flexible)	Flexicurity aids demand and global competitiveness	Controlled labour mobility, globalized division of labour

State	Competition state for innovation-led growth	‘Third Way’ policies to cope with new social exclusion(s)	Schumpeterian Workfare Post-National Regime	Multi-scalar meta-governance (e.g., EU type “OMC”)
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Finance-dominated accumulation reinforces the abstract-formal logic of flows in the world market at the expense of the substantive-material moment of use value rooted in specific places and times. It is capital in these abstract moments that is most easily dis-embedded and thereby freed to ‘flow’ freely through space and time. This would seem to make the developmental state irrelevant and to prompt demands to dismantle it in favour of a liberal state that actively promotes free trade. However such a radical neo-liberal turn could not provide a medium-term solution to the crisis of exportism and the LWNS. In the case of developmental states, therefore, a more hybrid strategy seems appropriate. This excludes a radical neoliberal regime shift along the lines of Reaganism or Thatcherism but is consistent with neoliberal policy adjustments. Domestic forces were often interested only in making appropriate neo-liberal policy adjustments to sustain a restructured, recalibrated developmental state that could respond to the perceived imperatives of the globalizing, knowledge-based economy. Thus, while neo-liberalism seemed to have prevailed in the immediate aftermath of the ‘Asian Crisis’ (induced in large measure, paradoxically, by the impact of neo-liberalism itself), the medium-term result has been a conservation-dissolution of the LWNS form of the developmental state as it gets transformed into a more Schumpeterian workfare post-national state with continuing major roles for the national state.

In this context, catch-up competitiveness could be reoriented to extending financialization to benefit national or regional financial institutions and organizations, to compete for regional financial hub status, and to offer the best regulatory frameworks for stable financial accumulation. Where financialization is promoted without such a catch-up orientation, however, but is pursued more in the spirit of neo-liberal ‘me-too-ism’ with little regard to local or national specificities and the need to limit the crisis-tendencies of financialized rent-extraction, it would be inappropriate to describe this strategy in developmental state terms. Here it would be better to talk of a neoliberal regime shift oriented to deregulated financialization.

In the Korean case, Doucette and Seo note, the state has promoted

significant bank and corporate governance restructuring, engaged the competitive bidding for a financial hub in East Asian, and witnessed the emergence of speculative bubbles in stocks, credit lending, and real estate. These changes have reshaped relationships between finance, government, and business firms, dis-inte-

grating the corporatist state-bank-conglomerate nexus that underpinned previous periods of rapid economic growth. Meanwhile, international financial markets have become an integral part of Korean macro-economy and its economic geography (2011: 2).

In a revised version of this paper, I intend to explore in more detail different finance-dominated accumulation strategies in East Asia. Time has not permitted this for the present workshop, from which I hope to learn much.

## Conclusions

My paper has critiqued the developmental state as a theoretical and policy paradigm and suggested an alternative theoretical framework for addressing the same set of issues that prompted its initial development and subsequent application. This alternative framework may enable a rapprochement between those who claim that neo-liberalism has superseded the developmental state and those who argue that the latter remains essentially unaltered. For, by introducing four dimensions of state intervention, linking these to different accumulation regimes and modes of regulation, and noting the transition from the co-existence of Atlantic Fordism and East Asian exportism to a period characterized by the globalizing knowledge-based economy and the ecological dominance of finance-dominated accumulation, I hope to have revealed some of the (dis)continuities (or conservation-dissolution effects) in the developmental state. With the rise of the neoliberal transnational financial order and the theoretical and policy interest in the globalizing knowledge-based economy, competition has refocused on innovation (including in finance and securitization) and how best to link extra-economic factors to the 'demands' of economic competition.

## Notes

1. Some scholars deny that an East Asian economic miracle occurred, arguing that the high growth rates were simply factor-driven (e.g., Krugman 1994).
2. *In the tradition of enlightened despotism, the right to rule a state carried with it the duty to develop it for the common good.*
3. Andrew Hamilton, the first US Secretary of the Treasury, developed a plan to industrialize

the United States that deployed the same theoretical arguments current in Continental Europe and quite recent in England. Hamilton advocated bounties and incentives to manufacturers to be financed from the tariffs imposed on the import of manufactured goods (Hamilton 1791).

4. Lie suggests that this explains why, '[i]n spite of Amsden's success in demolishing the market myth, ... she ends up buttressing another: the self-congratulatory self-image propagated by the architects of Korean economic strategy' (1991: 68-69).

5. More detailed historical analyses would also need to consider the role of land reform at the cost of large landowners, especially in South Korea and Taiwan.

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**Rethinking ‘Developmental State’ Via  
Cultural Political Economy: Neoliberal  
Developmentalism and the Case of China**

*Ngai-Ling Sum*

# Rethinking 'Developmental State' Via Cultural Political Economy: Neoliberal Developmentalism and the Case of China

*Ngai-Ling Sum*

## 1. Introduction

This paper is divided into four parts. The first starts by locating the 'developmental state' literature in four ways. Building upon these critiques, the second part suggests a cultural political economy (CPE) (Sum and Jessop 2013) approach in rethinking about 'developmental state'. It suggests the reconceptualization of the state as capitalist state and formulates the concept of neoliberal developmentalism as a way to go beyond the state vs. market debate. This can be achieved by drawing on Gramsci and Foucault especially with regard to the concepts of 'integral state' and the importance of discourses in mediating the (re-)making of hegemonies and social relations that are contradictory and tension-ridden. The third part offers a preliminary application of these ideas to the case of China. It focuses first on the Chinese leadership in constructing 'GDP' (and GDPism) as an hegemonic project in three stages. It then concentrates on the 2007 financial crisis and its related stimulus package to illustrate the co-presence and intertwining relationship between neoliberalism and developmentalism as well the unevenness and social struggles therein. The fourth part ends with some concluding remarks on the value-added of the CPE approach in deepening our understanding of state-society relation and the struggles and tensions therein.

## 2. Locating The 'Developmental State' Literature in Four Ways

This paper starts by locating the 'developmental state' literature in four ways. First, it argues that this literature is largely inspired by institutional economics and Weberian view of (bureaucratic/ meritocratic) state (de Medeiros 2011: 43). It leads and coordinates a set of strategies and institutions that act to produce particular developmental outcomes. It models these upon private behaviours that involve an admixture of strategic planning, government policies and business strategies. Second, it assumes 'methodological nationalism' (de Medeiros 2011: 43) which sees developmental performance (or its failure) as explained by domestic factors (e.g., state capacity). In this regard, state is seen as a major inductor of change that governs (discipline) the market, when and as necessary, in the national interest, however

this is defined. Operating as a paternalistic agent, it shepherds local entrepreneurs onto an accumulation strategy for catch-up development. Third, given its paternalistic nature, the ‘developmental state’ literature is also narrated in terms of the discourse of state vs. market. Accordingly, it is seen as a positive alternative to neoliberal market and is actively promoted not only as an analytical tool but as a development policy and even as a ‘knowledge brand’ (on knowledge brand as applied to competitiveness, see Sum 2009). The latter recontextualized these ideas into policy and then into instruments that can target the development of Africa by getting its ‘institutions right’ (Africa Institute for South Africa 2010)

Fourth, the ‘developmental state’ literature deploys particular (if not narrow) understandings of state-society relation (D-O. Chang 2009; H-Y. Song 2011). These understandings can be captured in three intertwining ways. The first focuses on ‘state capacity’ (e.g., Amsden 1982; Weiss 1988) and state is conceptualized as above society and separated from social forces (e.g., capital). This constricts state-society relation to one between a set of institutions and bureaucrats, and groups of businessmen with a common project. The state is thus seen as possessing capacities to discipline as well as working with private business. Seen from this perspective, state-society relations are reduced to state-capital relations and then to government-business relations (D-O. Chang 2009). Here, capital is as individual owners of resources and sources of revenue and not as social relations. The second focus is on ‘autonomy’ (e.g., Evans’ ‘embedded autonomy’). For Evans (1995: 59), ‘government organs are relatively insulated from societal pressures’ and they operate as a set of institutionalized channels for the continual negotiation and renegotiation. The sources of such autonomy are derived from the internal and organizational features of the state. Evans talked about the ‘the best and the brightest’ state personnel (1995: 51) and Weiss and Hobson (1995) focused on ‘rigorous recruitment system’. The third embraces ‘institutionalism’ with special reference to institutional linkages between states and markets that based on norms, established procedures and conventions that govern behaviour and institutionalized state-business cooperation (Weiss 2003: 247). Others highlight ‘institutional innovation’ (H. J. Chang 2006: 95-102) as influential factors.

### **3. Rethinking ‘Developmental State’ via Cultural Political Economy (CPE)**

These foci on Weberian and institutional understandings of the state need serious rethinking when seen from a cultural political economy perspective. This paper suggests two ways of rethinking about the ‘developmental state’ literature: state as capitalist state and the market and state are not mutually exclusive but are hybridized and intertwined.

#### **3.1 State as capitalist state with capitalist social relations**



Influenced by Marx, Gramsci and Foucault (see Sum and Jessop, Chapter 5), CPE sees 'state and capital' are not different sets of individual actors. State as capitalist state with capitalist social relations are contested at different scales (global, national and local) and diverse sites. In other words, state is not agent above interests, Gramsci's idea of 'integral state' rejects reified and fetishized treatments of institutional separations in favour of integral analysis of specific fields of social practice and their articulation to ensembles of social relations. This allows the conception of capital not as business but as dominant class/fractions of capital. The latter leads a coalition of power and build a hegemonic project compatible with a particular accumulation strategy (de Medeiros 2011: 44).

This focus on hegemonies, hegemonic projects and accumulation strategies (Jessop 1990) is the mainstay of CPE. However, what distinguishes CPE is its focus on the examination of interests in contradictory dynamics of capitalist relations and their transformation, as shaped by their interrelated discursive and structural aspects. The emphasis on the discursive-material dimension does not assume hegemony pre-exists but is seen as processes that involves construction and negotiation of discourses and practices at specific sites. This focus allows CPE to: a) examine the discursive moments in the (re-)making of hegemonies and what shapes their selection and retention; and b) highlight the tensions and negotiations pertinent to the making of hegemonies project among dominant fractions of capital and their challengers.

### 1.1 Intertwining And Hybridizations of Market And State: Neoliberal Developmentalisms

In order to go beyond the state vs. market debate or the mutually-exclusivity of 'state developmentalism' and 'market neoliberalism' (Park, Hill and Saito 2012), this paper suggests the concept of neoliberal developmentalism that can be analyzed in terms of the negotiation and hybridization of 'state developmentalism' and 'market neoliberalism'. They are negotiated/hybridized by social forces engaged in the construction of discourses and fields of socio-economic practices that are articulated to ensembles of social relations. These efforts to conserve or rebuild social relations involve 'unstable equilibrium of compromise' among groups and class fractions. These 'moving but unstable equilibria' may result in temporary strategic fixes that may accommodate some contradictions whilst others may fuel crisis. This unevenness invites continuous challenges from the marginal/subaltern groups. These contradictory relations needs to be examined as at different scales (global, national and local) and diverse sites at particular conjunctures.

## 4. The Rise of Neoliberal Developmentalism in China via GDPism

In order to illustrate these ideas, this section deploys the case of China by examining its

mode of neoliberal developmentalism in its national-global contexts. On the national level, it is characterized by one-party authoritarian rule whose source of legitimacy is the pursuance of ‘national strengths’ and related signs of ‘national glory’. This pursuance of glory is related to its self-victimized narratives of ‘one hundred years of humiliation’ (e.g., Opium War, unequal treaties, Scramble for Concessions, etc.). For the Chinese leadership, this shortfall can be overcome by promoting a glorious future through economic growth and development. One important way to frame and construct this ‘strength’ is via the discourses and practices related to ‘GDP’ and, more specifically, ‘GDPism’.

#### 4.1 The (Re-)Making of GDPism As a Hegemonic Project Under Neoliberal Developmentalism

The (re-)making of discourses on GDP is mediated by the party leaders, state officials at all levels of government, policy commissions, standing committees, think tanks, economic strategists, market analysts, official/business media, universities, schools, Internet, etc. It is beyond the remit of this paper to examine their respective roles and practices in the hegemonization processes. However, this paper will map the making of China’s GDP imaginaries in three stages (see table 1). These imaginaries began in the Deng era with the construction of GDP growth rate at ‘8%’. This target could: a) allow the national economy to quadruple by the end of the century; and b) offer a theoretical minimum required to create enough jobs to maintain social stability.

**Table 1 Three Stages in the Construction and Negotiation of GDP in China 1978-2011**

Stages	Major Imaginaries
Stage 1 1978-1997 (Deng Era) Building Strength and stability ‘8 % GDP growth rate’ would · allow the national economy to quadruple by the end of the century · be the theoretical minimum required to create enough jobs to maintain social stability	· Construction and identification of ‘8% GDP growth rate’ as a national economic and social goal · ‘No. 8’ is also a near homonym for ‘fortune’/‘prosperous’ - a lucky number in Chinese culture
Stage 2 1998-2002 (Jiang-Zhu Era) Safeguarding strength and stability 1997 Asian Crisis Rising unemployment and to avoid collapse during the crisis	Protecting 8% growth rate’ (‘bao ba’) (‘保八’) ‘Protecting 8’ can help to avoid unemployment – as it producing 10 million jobs Maintaining stability and calming social unrest A kind of growth compact that aids public legitimacy under a one-party rule
Stage 3 2003 - 2011 (Wen-Hu’s Era) Projecting Strength and maintaining stability 2007 Financial Crisis US and European recession (Eurozone crisis) Falling exports and rising unemployment	China’ in national and international imaginaries China repeated its ‘protecting 8% growth rate’ - as a symbol of China’s strength and success • ‘Protecting 8% growth rate’ • China’s ‘big consumer market’ • China as an important country in ‘BRIC’ ‘China with the second highest GDP in the world’ ‘Scientific Development’ and ‘Harmonious Society/World’

These ways of framing GDP as a symbol of national strength and a barometer of socio-economic stability were initiated by Deng during the early reformist period in the 1980s. At that stage, the '8% GDP growth rate' was seen as a way of building strength/stability. Since then, it has gone through two other stages in which GDP discourses were reworked by the Jiang-Zhu and then Wen-Hu leaderships to 'maintain' and 'project' strength and stability (see table 1). These layering of GDP meanings have sedimented GDP not only as a target but also as a hegemonic project that can be captured via GDPism. The latter can be defined as an ideological belief that rapid GDP growth is the nation's highest priority as it is the panacea for national glory, strength and social stability. This project leads and defines the interests of China's reformist-growth coalitions as national interests.

This negotiated leadership of GDPism, when seen from a discursive level, was not a purely state narration. It involved the variegated hybridization of market and state elements through time. More specifically, this hybridization comprised a reframing of neoliberal views in state-developmental languages and practices. For illustration purpose, table 2 identified some prominent neoliberal views and how they were reframed/recontextualized in state-developmental terms in China. This (re-)framing allows for a blurring of the market-and-state boundaries and the introduction of market elements in the name of national strength and stability. These hybridized practices were justified and legitimized via the narratives of 'feeling for the stones when crossing the river'; 'let part of the population get rich first', and 'planned economy is not necessarily socialist whereas market economy is not necessarily capitalist. They are both economic method...' (Deng 1992 South Tour Speech). These methods could be co-used to develop productive forces (and not capitalism).

**Table 2 State-Mediated Recontextualizations of Neoliberal Views in the 1980s and 1990s**

Neoliberal Views	Chinese State's Reframing of Neoliberal Views
GDP Economic growth as measured by changes in real GDP is given priority over socioeconomic issues	'8% GDP growth rate' is · a symbolism of national strength · a mantra and mode of policy calculation (up to 2012)
Free market Free market approach is imperative to improving economic efficiency – deregulation is needed; government intervention is minimal	Building a market system to eliminate 'economic irregularities' resulting from decentralized planning
Trade system An open trade system for economic growth	Promoting export-oriented 'outward looking' economy

Competitiveness Pro-market and firm-based competitiveness	Reforming state-owned enterprise; breaking the 'iron rice bowl'; develop productive forces for catch-up development and competitiveness
Financial flow Free capital flow improve economic efficiency and is conducive to economic growth	Reforming banking systems and building capital markets to enhance productive forces
Privatization Privatization of state assets is necessary for the operation of market economy	Ownership reform as an alternative to the 'contracting system' under decentralization

Source: Adapted from Ji 2006: 194

This state-mediated reframing of neoliberal views forms the basis of neoliberal developmentalism in China. This concept epitomizes the selective neoliberal programmes and their hybridization with state-facilitated ones. These involve: a) the tweaking of neoliberal economic principles in line with a 8% GDP growth as promoted by the party leadership in the name of national strength and pro-development reform (up to 2012); b) state planning and market are reframed as tools to promote economic growth and national strength; and c) market principles are interpreted as productive forces essential for catch-up development and growth.

#### 4.2 An Illustration of The Nature of Neoliberal Developmentalism: China's 2008 Stimulus Package

Given the above discussion of neoliberal developmentalism is conducted in more general conceptual terms, this sub-section will examine its nature at a particular conjuncture -- the 2007 financial crisis and its related stimulus package. Deploying the mantra of maintaining 'GDP growth at 8 percent', the central government put together a vast stimulus package to launch China back on its growth path. However, from a CPE viewpoint, this package has also intensified pre-existing socio-economic tensions and contradictions.

With the onset of the 2007 financial crisis, China was hit by declining exports, rising unemployment and falling GDP growth rate below 8%. In order to avoid economic decline and social instabilities, the Chinese central government stimulated its economy by putting together a USD \$ 4 trillion package that would support ten major industrial sectors (e.g., steel, shipbuilding, electronics, petrochemical, etc.), building infrastructural projects (e.g., high speed rail, electric grids), boosting consumer spending, developing the rural economy, and encouraging education and housing. Although the stimulus package was well-received at the global level as a way to aid 'global recovery' (Lardy 2009), central-local relations in China itself have been aggravated by its mode of financing which incurred a mix of state and market elements.

Focusing especially on its land- and debt-based modes of financing, this sub-section will highlight the hybridization of ‘state developmentalism’ and ‘market neoliberalism’ in these modes (see table 3). Based on practices since the late 1990s, central government funded around one third of this package; the rest was to come from municipal-local governments, governmental ministries, and state-owned enterprises. To facilitate this funding, the central government, in a state-developmental way, loosened its credit policies, and encouraged state-owned banks to lend. When these measures were communicated to the ministries and local (including provincial, city, prefecture and county) governments, they welcomed this opportunity to get approval for pet projects (e.g., high-speed trains and dams) (Naughton 2009) and to meet their GDP target. Under the prevailing central-local fiscal arrangements, local governments must provide matching funds.

**Table 3 Major Modes of Financing and Economic Practices Related to the 2008 Stimulus Package**

### Major Modes of Financing and Economic Practices

Level of Government	Mode of Financing	Major Actors Involved	Major Economic Practices and Nature
Central government	State-bank loans	Central government and State-owned banks	<ul style="list-style-type: none"> <li>State-bank loans at cheap rates</li> <li>Loans for infrastructure</li> <li>Loans for property and speculation</li> </ul>
Local governments	Land-based financing	Local governments	<ul style="list-style-type: none"> <li>Use land as collateral</li> <li>Sell land-use rights (lease of 70 years)</li> </ul>
		State-owned land/property developers and private counterparts	<ul style="list-style-type: none"> <li>Acquire, develop and commodify land</li> <li>Build private housing for sale</li> <li>Build infrastructure (empty malls)</li> </ul>
	Debt-based financing	Property owners	<ul style="list-style-type: none"> <li>Property as ownership, investment and speculation (not for residence)</li> </ul>
		Local government financial vehicles (LGFVs)	<ul style="list-style-type: none"> <li>Borrowing</li> <li>Local government debts</li> </ul>
		Shadow banking actors	<ul style="list-style-type: none"> <li>Repackaging of debts as investment and wealth management products</li> </ul>

Key: In black (more state developmentalist), In red (more market neoliberal)

This shortfall can in principle be filled by financial resources coming from a mix of local government bonds issued by the central government (or with its approval), corporate bonds, medium-term notes and bank loans. However, as China’s bond market is still developing, local governments mainly seek their own sources of finance. This paper concentrates on the increasing neoliberal commodification of land as a means to generate income. This is possible because China’s land leasehold market was formally established in the late 1970s under Deng Xiao-Ping. Urban land is state-owned but the separation of ownership and land-use rights means that public and private actors can shape its disposition and utilization. Urban land-use rights could be leased for fixed periods (e.g., 70 years for residential housing) at a fee



and land-right leases are tradable at auctions. This development encourages local officials to acquire arable land for conversion and re-zoning rural towns as urban by compensating (at least in principle) the communities involved. In this regard, local governments engage in 'land-based finance'. This means that local governments derive extra-budgetary income from intensifying land-based commodification. The latter involves acquiring land, developing land, selling land use rights, collecting fees, obtaining mortgage loans, and acquiring land again (Global Times 2010). Local governments can thereby generate 'land transfer income' from auctions, land rights licenses, land transfer fees, collateralize mortgage loans, etc. In 2009, it accounted for 46 percent of overall financial revenue of local governments compared with 35 percent in 2001 (Global Times 2010).<sup>1</sup> A complication is that the Budget Law prohibited local governments from raising loans directly. So they seek market-state solutions by establishing government-run financial vehicles to borrow from large state-owned banks (e.g., Bank of China, China Construction Bank), using land as collateral. Close relations among local governments, their financial vehicles and state-owned banks made credit easily available between 2008 and 2010. During this period, local government debt rose tenfold from 1 trillion RMB (USD 146 billion) to an estimated 10 trillion RMB (USD 1.7 trillion) (Xinhua 2011). Concurrently, Bank of China recorded a profit rate of 28 percent year on year for 2010 (Business Weekly 2011).

This use of land (and land use rights) for generating income and loans means that local governments, property developers and state-owned banks have strong interests in keeping the land and property markets active and prices high. This land-based expansion is reinforced by emerging popular socio-economic attitudes that property ownership is a source of housing, economic security, hedge against inflation, social status, family safety net and personal pride. The business press, media, and peer/family outlooks strengthen these views in everyday life. Indeed, sayings such as 'no car, no house, no bride' are common among women of married age (Offbeat China 2011). The desire for home ownership apart, low interest rates and the absence of a national property tax allowed for speculative property to be purchased and held relatively cheaply. In short, all these state-market and land-based calculations have been propelling real estate inflation and fears of a 'property bubble' have revived since 2009. According to Colliers International, residential prices in 70 large- and medium-sized cities across China rose in 2009, with 50 to 60 per cent increases in Beijing and Shanghai. Such increases reduce housing affordability with the conventionally calculated standard residential property price to average annual family income ratio for Beijing being 1:22. This compares with UN's ideal figure between 1:3 and 1:4 (Smith 2010; Powell 2010; FlorCruz 2009).

#### 4.3 Intensification of Property Bubble, Tensions and Resistance

The inflationary rise of real estate and falling affordability of property have politicized



the housing question. This was acknowledged by the Premier Wen when he remarked on 27 February 2010 that 'property prices have risen too fast' and this 'wild horse' must be tamed. The central government leaders introduced regulatory measures in 2010 to dampen the market (e.g., tightening of credit, raising deposits for purchase of new land to 50 per cent; restricting the purchase of second and third homes, etc.). However, such stabilization measures have moderate effects and property prices continue to rise in some provinces and cities. The reasons include: (a) banks find other ways to increase their credit (e.g., selling off mortgage loans to state-owned trusts and asset-management companies; turning loans into investment products and selling them to private investors, etc.); and (b) local governments soften up these property investment restrictions and selectively implement local-level initiatives to maintain their land-based mode of accumulation.

This way of organizing the local political economy does not imply unity of purpose among actors. It only means that, for their own particular purposes, they work together at this conjuncture. Specifically, this mode of accumulation generates 8 percent (or higher) growth rates for the central government, jobs, perks and promotion for local officials; revenue, projects and growth statistics for ministries and local governments; profit/investment for state-owned banks and state-owned/private property developers; and, of course, benefits to property owners (Sum 2011). Such apparent advantages to central-local elites are not matched by benefits elsewhere in the economy and population. Indeed, rising property prices, wealth accumulation and regular land auctions co-exist with social unrest related to land grab, affordability of housing, the plight of 'house slaves', conditions of migrant workers, inflationary pressures, and corruption. These sources of unrest destabilize the society and have markedly uneven impacts upon the socio-economic positions of ordinary citizens and the subaltern groups. The incidence of protests, riots and mass incidents quadrupled between 2000 and 2010 (Orlik 2011). Given that land grab issues and high-profiled resistance cases (e.g., Wukan revolt) are already well-reported in the academic literature (e.g., van Westen 2011; Jiang 2012) and on the Internet (e.g., Wikipedia, Youtube, etc.),<sup>2</sup> this paper turns to two less well-known social issues related to everyday life: the life of 'house slaves' and plight of migrant workers (and children) in rural towns.

First, the life of 'house slaves' was reflected and popularized in a TV serial entitled *Dwelling Narrowness* (Snail House) in 2009 (see Image 1). It is based on a novel by Tu Qiao, an independent journalist and writer. The story highlights a couple's struggle to buy an apartment in the midst of rising property prices in a fictional city that could well be Shanghai. Specifically, the story concerns two sisters who have borrowed heavily to buy user rights to an apartment. To obtain the money, one sister begins an affair with a wealthy and corrupt official. He later falls from grace because of a scandal over the diversion of pension funds to finance property projects (He 2009). The story resonated among ordinary people and social critics especially regarding the impact of high property prices upon families and young couples, corruption and cronyism in real estate markets, class disparities and the sexual economy of mistresses.

In spite (or perhaps because) of its popularity, the serial was taken off the Beijing TV Youth Channel on 22 November 2009. It was subsequently criticized by the State Administration of Radio, Film and Television as sensationalizing ‘sex and corruption for profit’. Nonetheless, its gritty urban actualism continues to appeal and the serial is still available on the Internet and DVD. It has been viewed online and downloaded more than 100 million times on the Internet (Yu 2011) and government officials admitted to having watched it. Like most cultural products, this serial has been interpreted in many ways. One view is that it is a piece of social criticism that sharply depicted the painful everyday life of under-paid university graduates, ‘stooges of real estate business’ and ‘house slaves’ (Hung 2011: 165). For example, it signified a life dominated by numbers - the joy of payday, the pain of saving for a flat, and the daily distress of making ends meet. It seems as if these workers do not own their dwelling, but their dwelling owns them and dictates their working lives and family relationship as if it had enslaved them. The serial supplied material for countless newspaper columns, blog and forum discussions as well as appeals for action. Among many responses to this depiction, a Xiamen artist, Li Bing, constructed a ‘house slave sculpture’ that portrayed a man standing on his hands while his body was overloaded with many layers of bricks (Xiamen News 2010).

### **Image 1 Popular Serial on Dwelling Narrowness (Snail House) 2009**



Source: China.org.cn

A second, but related, issue is the plight of migrant workers in rural towns on the periphery of cities. These workers comprise a significant part of the reserve army of labour that supports the Chinese export economy and high growth rates. While low and insecure income and lack of household registration entitlements (*hukou*) prevent them becoming ‘house slaves’, they risk becoming displaced by the same property boom dynamic. This accelerates land clearance in rural towns for real estate projects, displaces workers and increases the rent for their accommodation. These effects are so rampant that it has triggered rising social unrest related to land appropriation, under-compensation for land/property seizure, inflation, corruption, etc. Apart from land-based peasant riots, resistance is also expressed through the Internet. An unusual and innovative example of everyday resistance emerged in October 2010. A blogger called Blood Map used Google Map to chart the distribution of sites where there have been

land conflicts, use of violence against residents, and people's resistance to illegal land grab and property demolitions in China.<sup>4</sup>

Land appropriation and clearance also affect migrant workers, especially their children. Migrant families have no hukou in urban areas and some children go to low-fee schools set up in slums in these rural towns. These provide inexpensive instruction with support from NGOs and community movements. Urban clearance means that this kind of affordable education is vanishing due to school closures. In Beijing alone, migrant schools have fallen from 320 in 2008 to 180 in mid-2012 (Meng 2012). These schools were categorized by the local authorities either as 'unsafe' or 'illegal' (making them ineligible in both cases for compensation on closure). As for the displaced children, a Beijing News survey (2012) showed that 53 percent transferred to other migrant-children schools, 33 percent returned to home villages (some for schooling), 13.6 percent re-registered at government-run schools, and 0.4 percent had parents who had not yet decided what to do. Those re-registered in government-run schools often face discrimination from permanent residents who do not want their children to have classmates whose parents 'sell fish or vegetables'. Children who were sent back to home villages become 'left-behind children' with social concerns related to living with aging relatives or in school dormitories. These issues raise more general questions about the rights of migrant workers and a hukou system that creates second-class citizens in urban areas. Whereas the central government is eager for change; local governments are more reluctant because they must foot the welfare bills especially in times of shortfall. Nevertheless, some cities (e.g., Shanghai) conducted pilot programmes in 2009 to grant 'permanent resident permits' to migrants. Eligibility is narrowly based on a points system related to education, tax payment, criminal record, etc. This creates a stratified citizenship as less than 0.1 per cent of migrants qualify (Kong 2010).

#### 4.4 GDP Parodies as Weapon of the Weak

Rising social unrest and frustrations lead to GDP being parodied in everyday websites (hudong.com/wiki, sohu.com, sina.com.cn, people.com.cn, baidu.com.cn, tiexue.net). Parody is literary or artistic work that imitates another work for comic effect or ridicule. It is a weapon of the weak (Scott 1985) that acts as social criticisms, rhetorical protest, and passive expression of civil resistance against power elites. In China, resistance voices parody state discourses on 'GDP' in folk languages. Bloggers translate 'GDP' as 'chicken's ass' or 'chicken's fart' ("鸡的屁") as it is a near homonym to 'GDP' – the connotations of ass and fart create what Scott argued as 'hidden transcripts' (1985). This parody is so popular that it has gained its own entry in China's wikipedia (<http://www.hudong.com/wiki/鸡的屁>) (see diagram 1).

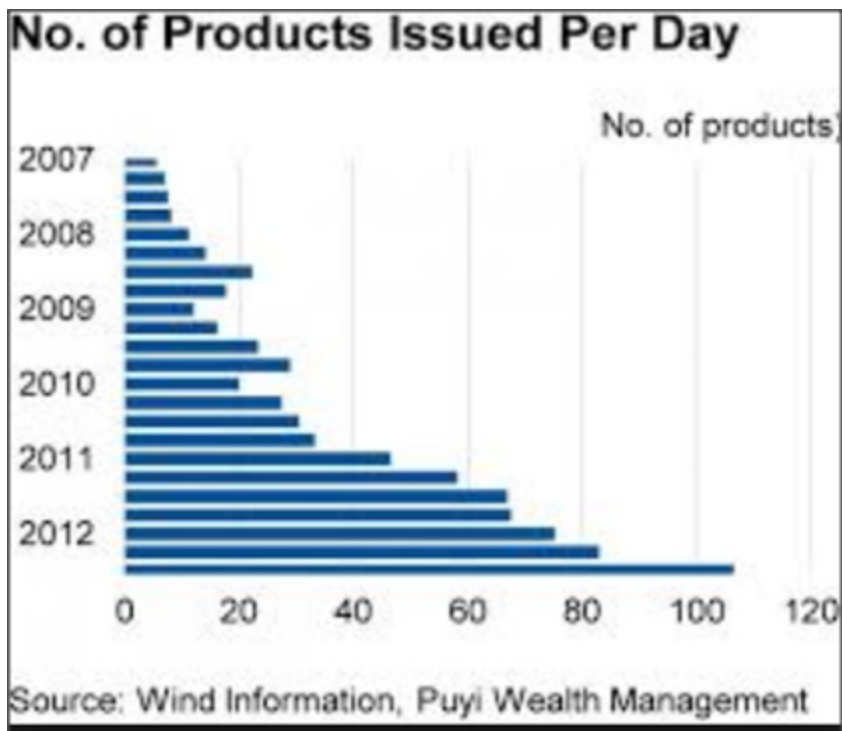
#### **Diagram 1 The Entry of GDP as 'Chicken Ass' in China's Wikipedia (Hudong)**



This parody is also formulated into punch lines, e.g., ‘Authorities are keen on GDP, the people are disgusted with chicken’s fart’ (官员热衷GDP, 百姓讨厌鸡的屁) and ‘the so-called GDP is bogus chicken fart’ (所谓的“GDP”都是虚假的“鸡的屁”). These parodies offer ironic and subversive criticisms of official pursuit of GDPism and its role in creating new posts and career advancement in government (数字出官, 数字升官). This occurs at the expense of people’s livelihood. People are suffering from asset and price inflation, tight family budgets, forced demolition, environmental degradation, etc. These tensions and parodies voice social frustration and reveal contradictions and economic tensions, e.g., conflicts between vested and subaltern interests over land grabs, forced demolition, asset inflation, rising prices, and corruption.

In response to these socio-economic tensions, there are calls to stabilize growth, maintain social stability and build a ‘harmonious society’. Responses include controlling property prices by credit restrictions, lowering the targeted growth rates to 7.5 and even 7 percent, and reorienting policies for a social agenda (e.g., housing, education, social management, etc.). However, tightening of credit is hurting local governments (and related property interests) as their expansion is largely based on collateralized mortgage loans and rising property prices. A credit squeeze means a fiscal crunch for local governments and property developers. Some small property developers have already turned to the free-wheeling shadow banking system for loans. The interest rates in this sector ranged from 10% to 200%. There were high-profiled collapses of shadow banking in Wenzhou and Anyang in 2010 and 2011 respectively. These collapses have triggered social unrest, central re-regulation, local government debts which were lent to this sector via their financial arms. Some of them adopt neoliberal strategy of the American sub-prime type of securitization to pass these debts onto the household sector and middle-class savers via wealth management products. There is the growth of the issuance of wealth management products from under 10 to 100 per day between 2007 and 2012.





## 1.1 Negotiating the Meanings of GDP and GDPism

With mounting local government debts, financial vulnerabilities, weakening of China's exports, and capital outflow, the Xi-Li leadership is talking about shifting the economy from investment- and FDI-oriented economy to consumption-led growth. In addition, this leadership is also negotiating the meaning of '8% GDP growth rate' and has revised it from 7.6% to 7%. The role of GDPism has been change from a symbol of national strength to the 'stabilization of growth and support the bottom line'. More interestingly, they are entering another round of the remaking of neoliberal developmentalism under the rubric of the 'rebalancing of the economy'. Different fractions are active in pushing for their interests. For example, the newly-developed financial fraction is active in pushing for bigger 'financial reform' that involves diversifying financial market, internationalization of Yuan and interest rate liberalization. Current leadership supports financial liberalization, the questions are these reinforcing debt-based accumulation, making it harder to restructure the economy towards real consumption-led growth? Is it fuelling and intensifying struggles between the financial factions (market rate of interests) and the industrial-property one (supporting low interest rates) via state lending.

## 5. Concluding remarks

This paper starts by locating the developmental state literature as largely inspired by institutional economics and Weberian view of (bureaucratic and/or meritocratic) state. It adopts particular understanding of state-society relations in which the state is conceptualized as above society and separated from social forces (e.g., capital). This paper calls for a rethinking of development state through cultural political economy (CPE). More specifically, the contribution of a CPE approach includes the following. First: it draws on Gramsci and

rejects the institutional separations in favour of an integral analysis of specific fields of social practice and their articulation to form ensembles of social relations. It focuses on the dominant class/fractions of capital leads a coalition of power and builds a hegemonic project compatible with a particular accumulation strategy. Second, it highlights the importance of discourses in mediating the processes of socio-economic changes. Third, it also suggests that state and market are not mutually exclusive and proposes the idea of neoliberal developmentalism as a way forward.

Applying this concept to China, this paper argues that there are in three stages in the making of '8% GDP growth rate' as its hegemonic project. These layering of GDP meanings have sedimented GDP not only as a target but also as a hegemonic project that can be captured via GDPism. This negotiated leadership of GDPism, when seen from a discursive level, was not a purely state narration. It involved the variegated hybridization of market and state elements through time. Focusing more on the third stage in which China introduced a vast stimulus package in response to the 2007 financial crisis, it outlines how some vested interests (e.g., central government, local governments, state-owned banks, land developers, property developers, property owners, financial organizations, etc.) have gained at the expense of subaltern groups (e.g., house slaves, migrant children, propertyless middle classes, etc.). Such tensions and contradictions have given rise to social unrest and resistance. At the time of writing, China is entering another round of the remaking of neoliberal developmentalism under the rubric of the 'rebalancing of the economy'. Financial reform is high on the agenda of the Xi-Li leadership. This may be complexifying and fuelling struggles between industrial-property fractions (supporting low interest rates) and the financial ones (market rate of interests).

## Notes

1. Wang Xiaoying, a researcher in the Chinese Academy of Social Sciences, described this process in 2010 as "acquiring land, selling land, imposing taxes, mortgage and then acquiring land again" (see <http://www.globaltimes.cn/business/china-economy/2010-12/606958.html>, accessed 16th August 2012). My account clarifies, builds on, and gives more details.

2. Wikipedia includes 'Protests on Wukan' (see [http://en.wikipedia.org/wiki/Protests\\_of\\_Wukan](http://en.wikipedia.org/wiki/Protests_of_Wukan)) and a Google search on 13th August 2012 generated 125,000 hits for 'Wukan Revolt' on Youtube, international media and blog sites.

3. Most rural migrants have no hukou in urban areas and no rights to public housing, education for their children or local pension and health care benefits.<sup>4</sup>

4. For details of the 'Blood Map', see 'Elusive "blood map" founder speaks out', <http://>



observers.france24.com/content/20101119-china-evictions-violence-blood-map-google-founder-speaks-out, accessed 14th March 2011.

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# **The Fall of the Developmental State and the Rise of the Neoliberal State in South Korea: Transformations in Historical, Geo- graphical, and Social Relations**

*Joo-Hyoung Ji*

# The Fall of the Developmental State and the Rise of the Neoliberal State in South Korea: Transformations in Historical, Geographical, and Social Relations

*Joo-Hyoung Ji*

## I. Introduction

Despite the 2008 global financial crisis, the Korean economy, with the vast current account surplus as well as records high profits in big businesses and banks, has been performing well compared with North American or European countries. However, the household and domestic economy continued to perform poorly although it decides the quality of life of the majority of people. This is due to the socio-economic polarizations between big businesses and small and medium enterprises, and between regular workers and casual workers, as well as household debts, that have dramatically increased since the economic crisis in 1997. Together with the burst of the real estate bubble, this condition brought about the decline of purchasing power and domestic demand. Furthermore, the recent shrinking of overseas export markets and the financial hardship of many households are deteriorating even the profitabilities of big businesses and banks.

To understand the current crisis and responses to it, it is necessary to understand the nature of contemporary Korean state. The present conditions of the Korean economy, i.e. the record high profits from export, big businesses, and banks; the stagnation of household finances and domestic demand; and the resultant stagnation of export, big businesses, and banks, are not independent from but closely intertwined with one another. In particular, they are a result of neoliberalization since the 1997 economic crisis. And such neoliberalization has been led by the state that scrapped the mode of developmentalist intervention and introduced neoliberal economic system in the context of social changes in the international and national environments. Likewise the Korean state itself has undergone a profound changes in its institutional and strategic forms to support the neoliberal regime of capital accumulation. Thus efforts to overcome socioeconomic polarization, construct a welfare state, and democratize the economy should take the neoliberal character of the Korean state (in contradistinction with the neoliberal character of policies) seriously. For, without the transformation of such strategically selective character of the state, such efforts would be

blocked substantially and effectively.

None the less, the neoliberal character of the Korean state has been insufficiently illuminated and debated so far for the following reasons. First, the debates on the Korean state have revolved around the issue of the so-called developmental state as a source of rapid industrialization and economic development. However, methodologically nation- and state-centric, the developmental statisticians have tended to neglect or pay insufficient attention to the historical and geographical context of such development and the wider socio-economic context of capital accumulation. Furthermore, some developmental statisticians continue to describe the Korean state as developmentalist and fail to (or refuse to) accept the fundamentally altered reality of neoliberal capitalism in Korea. This is because the developmental statism implicitly adopts a dichotomous framework that opposes politics and economics and also the state and market in rather a zero-sum manner. For it tends to suggest the state as the only available and viable alternative to always failing markets: in other words, either market or the state. Second, there has been little interest in state theory and analysis as a result of the intellectual hegemony of American political science including disciplinary parochialism. Not only developmental statisticians but also many other social scientists focus on some limited aspects of the state and fail to address the state as a whole (state apparatus, representative system, mode of intervention, wider social relation, historical and geographical background, etc.).

For this reason, this paper aims to overcome statism, state-market dichotomy and methodological nationalism and reach an adequate understanding of the neoliberalized character of the Korean state since the 1997 economic crisis. Thus it tries to answer the following questions. First, what is neoliberalism and what differentiates the neoliberal state? Second, how did the Korean shift from developmentalism to neoliberalism socially historically, and geographically? Third, what forms does the Korean neoliberal state take? Finally, what distinguishes the Korean neoliberal state from its developmental form? Through these inquiries, this paper will show the material conditions and realities that should be taken account seriously.

## **II. Beyond the Developmental Statist Framework: A Critical Literature Review**

Academic discourses on the nature of the contemporary Korean state revolve around the intellectually hegemonic concept of the 'developmental state' in critical social science. The developmental state thesis suggests that Korea and other late developing countries could rapidly develop through state-led catch-up industrialization. The developmental state is characterized by autonomous, rational, and internally cohesive state apparatuses and bureaucrats (e.g. MITI in Japan: Johnson 1982), and 'governed interdependence' in which the autonomous state is embedded in but nonetheless guides and disciplines the

private sector (Weiss 1998, 38; Weiss and Hobson 1995, 244). In this social and political context, the developmental state, in turn, takes the lead in industrialization efforts: e.g. financial repression and state-led financial resource allocation; investment coordination and industrial planning, infant industry protection, etc. (Wade 1990; cf. Chang 2002). Korea was a model case of this type of the state expected to become Asia's next giant (Amsden 1989).

The question is whether the Korean state is still a developmental state after the 1997 economic crisis. Apparently, Korean capitalism has undergone a fundamental transformation in its economic institutions and business practices: the central bank has become independent; the state no longer engages in investment coordination and industrial planning; capital and commodity markets are fully opened. Then does it still remain a developmental state, or has it become a different kind of the state? The developmental statist takes three analytically distinct views. The first, conservative view opposes the state and market and characterizes the Korean state as a developmentalist one on the ground that it still actively engages and intervenes in industrial development in different ways. The second, disappointed view, though it advocates for developmental statism, argues that the Korean state is no longer a developmental state or it is indeed a neoliberal state since it retreated from industrial policy and investment coordination. The third, transformationist or post-developmental view recognizes that the Korean state is significantly neoliberalized but nonetheless emphasizes its developmentalist aspects.

First, conservative developmental statist claim that the Korean state is still a developmental state on the ground that it continues to actively engage in industrial development (e.g. IT and biotech industries) through a different form of industrial policy (e.g. Chu 2009). Weiss (2012) claims that globalization does not transform the state into a neoliberal one because the state remains proactive in fiscal management, reregulation, and technological development. This is true, but autonomous state intervention or industrial policy for development as such cannot be a sufficient condition to be qualified as a developmental state or to be disqualified as a neoliberal state. For there is no modern state that does not intervene in the economy (industries and markets) and pursues development in a more or less autonomous manner. In other words, there is no such thing as state-less (or completely ungoverned) market, and institutional/operational autonomy, developmentalist orientation and interventionist policies are widely observable characteristics of the modern state: for example, it can be said that all the OECD member states (including neoliberal USA and UK) clearly aims at 'economic cooperation and development'. Since the market economy is a utopia and needs to be socially embedded, even neoliberal capitalism necessitates autonomous state intervention (cf. Polanyi 1957). In this sense, it is misleading to regard the essence of developmentalism as autonomous, effective or efficient state involvement in development and consider all the successful state-led development as developmentalist (Fine 2011). Likewise it is wrong to consider the Korean state still developmentalist simply because it is seen to intervene autonomously or successfully for economic development. For the concept of developmental state to be analytically useful, it needs to be more specified. Developmental state capacity thus lies in specific manners in which the state performs these functions rather than autonomous

state intervention as such. Nonetheless, conservative developmental statisticians tend to equate the developmental state with governed market economy and neoliberal capitalism with ungoverned market economy. For example, Evans (1995) and Linda Weiss (1998) locate the specificities of the developmental state in state-society relations, i.e. "embedded autonomy" and "governed interdependence" respectively. However, as Weiss rightly criticizes, "embeddd autonomy", that is, both embeddness and autonomy, is a general feature of the modern state and thus it cannot explain the specificities of developmental state capacity. But her notion of "governed interdependence" is no better. Since it insulates the state from the rest of society, it locates "governing" solely to the narrow state apparatuses and their relations: state capacities are again located in autonomous state intervention (cf. Weiss and Hobson 1995). However, state power and capacities are relational. It needs to look beyond the narrow state apparatuses to wider social relations including international relations, capital-capital relations, and capital-labour relations. Also it needs to pay more attention to the capitalist dimension rather than the market dimension of society. For the notion of "governed interdependence" pay little attention to how the economy is governed in respect of capital accumulation. Not all governed economies are developmentalists (and neoliberal capitalism is not an ungoverned market economy but a different kind of governed market economy).

Second, disappointed developmental statisticians argue that the contemporary Korean state is no longer a developmental state but a neoliberal state on the ground that it has fully retreated from industrial planning, investment coordination and infant industry protection, given in to financial capital, and brought about low growth and socioeconomic polarization (e.g. Chang et al. 2005; 2012). Their critique is true, but this interpretation shares with conservative developmental statisticians the dichotomous supposition that developmentalism equals governed market economy and neoliberal capitalism equals a largely ungoverned market economy. Thus the disappointed developmental statisticians neglect the fact that the Korean state has not abandon industrial policy and continues to engage in economic development in a different (neoliberal) manner. As a result, they fail to address the neoliberal role of the Korean state in capital accumulation. However, the Korean state has not simply and fully retreated but taken the active lead in neoliberal restructuring since the 1997 economic crisis. It has transformed the Korean economy into a major site of accumulation for big business and global financial capital at the expense of the balanced national economic development (Ji 2011; cf. Pirie 2008). In short, despite their critique, disappointed developmental statisticians fail to analyze the neoliberal structure of the Korean state.

Third, in contrast to the two positions that oppose the state and market, and accordingly, the developmental state and neoliberal state, transformationists or post-developmentalists recognize that the Korean state is significantly neoliberalized and yet emphasizes its developmental statist path-dependency (e.g. Yoon 2009; Pirie 2008). This is true, but it is not very insightful to emphasize such path-dependency greatly in analyzing the neoliberal state. For it is the path-breaking, neoliberal mode of state intervention rather



than developmentalist legacies that matters critically. What defined the high-growth capacity of the Korean developmental state was not merely its narrow, autonomous state apparatuses (bureaucracy, developmental orientation, etc.) but also and more importantly its embedded social and political relations (Evans 1995; Weiss 1998) including its coordination of the industry-finance relation through financial repression, investment coordination and risk management, and its surrounding geopolitical and geoeconomic context of the Cold War and 'flying geese' division of labour in East Asia (cf. Amsden 1989; Chibber 1999; Burkett and Hart-Landsberg 2001; Lee 2003). Since these conditions no longer exist and new, neoliberal conditions prevail, it is hardly worth emphasizing the developmentalist legacies simply because there are institutional and operational autonomy, relatively efficient bureaucracy, developmental orientation, state intervention, strategic planning, and/or industrial policy, which can be observed in all industrialized modern states to some extent. Such emphasis on developmentalist path-dependency would only detract us from more detailed analysis of the neoliberal character of the Korean state. For example, Pirie's analysis of the Korean state (2008) focuses on efforts to build 'markets' such as the institutional reform (financial regulation, corporate governance, economic openness, and privatization) and business restructuring, but does not sufficiently deal with the state's role in financialization.

I argue that the contemporary Korean state is a neoliberal state. However, it is neoliberal not because it has retreated or it carried out institutional reform to build 'markets'. What distinguishes developmentalism and neoliberalism is not state intervention or developmentalist orientation as such but the way in which the state intervenes to pursue social and economic development. Even though it actively governs markets and economic activities, the state can be characteristically neoliberal rather than developmental depending on the nature of intervention and governance. The developmental state characteristically represses finance and proactively coordinate investment, production and distribution for (late) industrialization. The neoliberal state governs the economy in different ways. It is misleading to conflate neoliberalism with individual freedom and free markets in absence of state intervention. In the name of individual freedom, the neoliberal state in practice actively intervenes to maintain the so-called 'free market', in which capitalist freedom, i.e. private property rights (rather than individual freedom), is protected and extended through financial deregulation and privatized, capital-dominated governance on investment, production and distribution (cf. Harvey 2005). Then the critical question is: can it repress and sacrifice even capitalist property rights for industrial development, or does it protect and extend capitalist interests even at the expense of industrial development? The developmentalist framework avoid or fail to answer this question and thus produce sufficient evidence neither on the developmentalist nor neoliberal character of the Korean state.

In short, discourses on the Korean state around the theme of the developmental state tend to focus narrowly on state apparatuses, interventions, and economic policies rather than its embeddedness in wider social relations. This developmentalist framework risks reducing complex political economic relations simply into state-market relations. It neglects that what defines the nature of the state is not the socio-economic intervention of the state

as such but the way in which the state intervenes in capital accumulation and wage labour. Thus, without sufficient consideration of the state intervention in capital-capital and capita-labour relations, conservative developmental statist conclude hastily that the Korean state is not a neoliberal state but still a developmental state only with some evidence of developmentalist legacies and/or active state intervention. On the other hand, disappointed developmental statist and post-developmental statist also fail to grasp more fundamental issues about the Korean neoliberal state such as its structure and function regarding capital accumulation (governmental form) and its form of representation and balance of social forces (political form). Furthermore, all of them tend to neglect that state power and capacities are critically conditioned and constituted by international relations and environments. Most of the existing literature on the Korean state suffer from methodological nationalism. Of course, it is true that there is increasing concern with the geographical and historical context of the Korean developmental state such as the Bretton Woods system, the Cold War and Korea-Japan-US triangular alliance and trade (Chibber 1999; Burkett and Hart-Landsberg 2001; Lee 2003). However, there is still little interest in the new, geographical and historical context in which the Korean neoliberal state is embedded. It is needed to study the neoliberal transformation of the Korean state in the context of global structural changes. From such methodological reflection, this paper attempts to analyze (1) the Korean neoliberal state (2) in its spatio-temporal contexts (3) with a more comprehensive relational approach. For this purpose, the next section thus will examine what neoliberalism and what the neoliberal state is from this perspective.

### **III. Neoliberalism and Neoliberal State**

#### *1. Neoliberalism: Ideology and Realities*

To understand neoliberalism adequately, it is crucial to distinguish between its ideology and reality. The neoliberal ideology dates back to the 1920s Europe. It was a liberal response to the state-controlled economy of various kinds such as fascism, New Deal, social democracy, and soviet socialism. Initially, it was developed by the so-called Austrian school centred around von Mises and Hayek, and later spread globally through Mont Pelerin Society (circa. 1947), the so-called Chicago School centred around Friedman and Becker, and other various think tanks (Peck and Tickell 2007). Neoliberalism advocates for a specific type of freedom, i.e. the state of non-interference, or ‘negative liberty’ to use Isaiah Berlin’s term (1969). It includes property rights protection and extension, more freedom for market transaction and commodification, more consumer choices, resource allocation through competitive markets. The role of the state is to support these rights and, in doing so, it should retreat from many areas of social and economic life and some state powers should be delegated to the so-called ‘private sector’ (e.g. Hayek 1960; Friedman and Friedman 1980). Here individual liberties and the rule of law are prioritized over democracy. In other words, the latter takes a form of ‘legal democracy’, in which the rule of law limits democratic process to protect ‘individual liberties’ (Held

However, in contrast to its ideology, the neoliberal freedom in the real world turns out to be the asset owner or capitalist's freedom to use, commodify, transact, and dispose his/her properties, and results in dominant capitalists' monopolistic power over economic decisions regarding production, consumption, distribution and so forth through the active involvement of the state and other institutions that underpin this process. For as RH Tawney said, "Freedom for the pike is death for the minnow". Thus the essence of neoliberalism is not individual free choice, market competition or the retreat of the state. Historically, it has been expressed in the big asset owners' extended property rights to make profits, exercised through financialization and its related globalization and labour market flexibilization; the related political intervention of the national states and international institutions; and the spread of neoliberal governmentality since the 1970s.

First, in the context of unstable business environment of the 1970s (the abolition of the Bretton Woods fixed exchange rates, the decline of profit rates, oil shocks, etc.), financial deregulation and financialization (especially securitization) as well as globalization were promoted in order to maximize 'business freedom' or the asset owner's freedom to pursue profits (cf. Helleiner 1994; Krippner 2011). Securitization enhances the asset owner's rights to make profit by securitizing his/her rights to tangible and intangible assets in the following ways: (a) it liberates the asset owners' profits from direct engagement with management and industrial relations through portfolio investment or the transaction of partial rather than whole assets; (b) it enables the asset owner to realize profits immediately without waiting for the future by discounting asset prices into present values (Harvey 1999; cf. Nitzan and Bichler 2009); (c) financial engineering, financial derivatives, intellectual property rights, and so forth enlarge the scope of assets and commodities that can be transacted in capital markets (cf. Froud et al. 2002; Bryan and Rafferty 2006).

Such financialized accumulation in neoliberal capitalism depends on the growth of (financial) asset value through credit expansion. That latter is supported by financial capital's dominance and superiority over the state, industrial capital, and labour in economic decision-making regarding production, consumption, and distribution including investment, employment, pricing, etc. In the forms of investment bank, credit rating agency, etc., dominant capital organizes the process of asset valuation and resource allocation in capital markets (Morrison and Wilhelm Jr 2007; Ji 2011: Ch.3). In addition, dominant capital becomes mobile and global to seek for the best profitability. It undertakes mergers and acquisitions (M&As), cost reduction including labour cost cuts, monopolistic inflation and so forth to increase asset value (Nitzan and Bichler 2009). As a result, long-term industrial development as well as economic growth tends to decline and the financial sector becomes highly unstable (Dumenil and Levy 2004). In addition, employment declines, wages are cut, and deskilled and casual work increases, thereby increasing socio-economic polarization and household debts that counteract the declining income.

Second, accordingly, various economic, social, and political systems and institutions develop to support this process of financial accumulation. Backed by dominant capitalist class power, the neoliberal and neoconservative political forces and states promote financial liberalization and deregulation, capital and commodity markets opening (investment and trade liberalization), labour market flexibilization, and privatization. The international systems and institutions such as the International Monetary Fund (IMF), World Bank, World Trade Organization (WTO), and bi- and multi-lateral free trade agreements (FTAs), etc. assist in this process. As a result, democracy declines into a formal and procedural one, and legality replaces politics (cf. Poulantzas 1978; Crouch 2005).

Third, with the rise of neoliberal capitalism and the decline of social welfare, a new form of privatized governmental techniques or governmentality (economical governance through the 'conduct of conduct' or self-government) are popularized. Market becomes the 'tribunal' to judge the state and public assets and state powers are handed over to the 'private sector' through privatization and public-private partnerships. In addition, individuals take sole responsibility for their success and failure, and respond to socio-economic and lifetime risk increasingly through entrepreneurship, self-help practices, and privative means such as private pensions and insurances (Foucault 2008: 247; Dean 1999: 164-171; Rimke 2000).

## *2. A Strategic-Relational Form Analysis of the Neoliberal State*

### (1) The Methodology of State Analysis

The state can be approached through two analytically distinct entry points. One is to analyze a variety of governmental, political, hegemonic projects and their interactions around the state, and the other is to analyze institutional forms of the state such as internal articulation, external representation, and social and economic intervention (Jessop 2002: 42). Combining these two approaches, this paper undertakes a strategic-relational institutional form analysis of the developmental and neoliberal states as a consequence of the strategically selective process of social and class struggle.<sup>1</sup> It thus defines the state as a form-determined social relation or a condensation of historically specific balance of social forces including international and regional relations (cf. Gramsci 1971; Poulantzas 1978, 1980; Jessop 1990). It also look into the historically specific spatio-temporality of the Korean state as well as the role of the autonomous state apparatuses regarding its wider social relations (including its relation to big business).

In analyzing the state as a form-determined social relation, we can approach the state at various levels. Nicos Poulantzas (1978), who developed perhaps the most systematic theory of the state in the postwar period, distinguishes three levels of abstraction in state analysis. At the highest level, there are 'state types' that are determined by the mode of production or the economic relationship between the dominant and dominated



classes: e.g. feudal states, absolutist states, capitalist states, socialist states. At the next level are 'state forms' that are determined by the historically and geographically specific nature of the dominant class and class relations, and mode of political domination: e. g. capitalist-led normal states and state bureaucrat-led exceptional states. The 'normal state' form typically involves established bourgeois hegemony, political domination through consent rather than coercion, the development representative democracy, the rule of law, privatized ideological apparatuses, and the separation of powers. In contrast, the 'exceptional state' form involves the crisis of bourgeois hegemony and state-led politics, political domination through coercion, the interruption of democratic election, the rule of law, and the separation of powers, and statized ideological apparatuses. At the lowest level are 'regime forms' which depend on the character of the classes or forces in charge of the state as well as the articulation of state apparatuses: administration, parliament, court, and inter-relations between state branches. Accordingly, the normal state form can be divided into (parliamentary) liberal democracy, (administrative) authoritarian statism, etc., and the exceptional state can be divided into military dictatorship, fascism, Bonapartism, etc. If we follow this scheme, the neoliberal state should be analyzed at the levels of state form and regime form since it is a sub-variant of the capitalist type of state. Thus it should be defined by its own specific classes and forces in charge of the state and articulation among state apparatuses as well as the specific character of the dominant class and class relations and the mode of political domination, rather than the general aspect of economic and exploitative relationship between capital and labour that defines the capitalist mode of production.

However, this paper goes beyond Poulantzas's approach. Poulantzas classifies state forms and regimes largely in terms of class domination and yet neglect how it contributes to capital accumulation in particular (note that, in contrast, Poulantzas defines the capitalist state type in terms of the capitalist mode of production as much as the capitalist relationship between capital and labour). Thus, in terms of the capitalist state's role for capital accumulation, I introduce a distinction between statism and marketism at the level of state form, and distinctions between Keynesianism and developmentalism on the one hand and between (classical) liberalism and neoliberalism on the other hand at the level of regime form. Here I use Bob Jessop's analytical framework to explore the forms and regimes of economic and social intervention that Poulantzas neglected. According to Jessop, there are three institutional aspects in the state as a social relation: "(1) modes of political representation and their articulation; (2) the internal articulation of the state apparatus; and (3) modes of intervention and their articulation" (Jessop, 2002: 42). The modes of political representation and the internal articulation of the state apparatuses roughly correspond to Poulantzas's more politically-oriented concepts of capitalist state form and regime form respectively, whereas the mode of intervention indicates the economic aspects of capitalist state form and regime form, which Poulantzas neglected. The modes of intervention and their articulation involves the state's economic, social, and spatial policies, and the modality of government that aim to regularize the process of capital accumulation. In addition, I incorporate the geographical and historical context to the state as a social relation in order to overcome methodological nationalism. There is no legitimate reason to exclude international relations

and their changes and concentrate on national social relations in state analysis.

Thus, unlike in the developmental statist framework, I do not analyze political economic relations in terms of state-market relations but in respect of state-society, state-capital, state-labour, state-state relations and their impacts on capital-capital and capital-labour relations. First, state forms and relations can be divided into political forms and governmental forms. Political forms, in turn, are divided into forms of articulation and representation. The form of articulation refers to the hierarchical, cooperative, and conflictual relations among state apparatuses (the head of the state, administrative branches, legislature, court, political parties, etc) and what is at stake here is which apparatuses take the initiative and hegemonic power. The form of representation refers to the way in which the state represents people and civil society within the territory (liberal democracy, social democracy, bureaucratic authoritarianism, authoritarian statism, military dictatorship, Bonapartism, fascism, etc.)(Poulantzas 1978). On the other hand, governmental forms comprise economic policies (fiscal, monetary, financial, industrial and taxation policies) that support capital accumulation; social policies (policing, education, distribution, social welfare, labour policies) that reproduce labour power and maintain social cohesion; spatial policies (market integration and protection) that manages geographical division of labour; and governance mechanisms (top-down government, horizontal governance, public-private partnership, new public management, economic democracy, etc.) that counteract market failure (Jessop 2002). Finally, beyond methodological nationalism, state power and capacities are located in specific historical and geographical environments (cf. Park et al. 2012).

## (2) Statism vs. Marketism: Neoliberalism as a Sub-Variant

In terms of mode of economic intervention that regularizes capital accumulation, we can distinguish between two contrasting forms of the capitalist state. One is statism and the other is marketism, and the latter includes neoliberalism as a sub-variant. The statist state and marketist state are distinguished on the basis of who—between the political class or the equivalent (the state) and the capitalist class (or ‘market’)—takes the initiative in making economic decisions (production, consumption, distribution, etc.) and managing/regularizing capital accumulation, in particular, economic and social investment and the related risk management; and, accordingly, how they do so in relation to industry-finance connection.

The statist capitalist state coordinates socio-economic investment and manages the related risks such as business recession, unemployment and corporate losses. Thus capital accumulation is regularized and risks are publicized or statized. This involves the state-led pursuit of industrial development for full employment or catch-up industrialization at the expense of financial rentiers. We take the Keynesian welfare national state and developmental state as notable example. This state form originated with the historically specific conjuncture of the postwar Bretton Woods system, Cold War and class relations



(either through class compromise or authoritarianism) that provided sufficient policy autonomy to the national state.

The Keynesian welfare national state in the West, typically based on the post-war national class compromise and advanced or social democracy (including tripartism or corporatism) undertook the extensive 'socialization of investment' and risk management. First, it attempted to create additional effective demand necessary for full employment and economic growth through: stable capital income stream based on the Atlantic Fordist class relation (the exchange between productivity and income); positive future business prospects based on the state-led organization of investment; fiscal expenditures and counter-unemployment measures responding to the risk of market failure and recession; and the promotion of industrial investment through lowered interest rates ('euthanasia of the rentiers'). Second, it contributed to the reproduction of labour power and capitalist relations of production through extensive social welfare systems for education, healthcare, employment, and retirement. Third, in the context of the post-war Bretton Woods system, it privileged the national economy as the most important spatial scale and controlled the international flow of capital and commodities in order to maintain the effectiveness of its fiscal and monetary policies. Finally, these interventions indicate that the Keynesian state relied on extensive top-down government in preventing and compensating for market failure (Keynes 1936; Jessop 2002).

On the contrary, the developmental state in East Asia, typically based on authoritarian politics and class domination, undertook the intensive statization of investment and risk management. First, it led late industrialization by: stabilizing income stream through subsidies, wage restraints, domestic monopoly and export promotion; reducing risks and increasing business prospects in long-term industrial investment through state-led coordination and planning; inducing strategic industrialization through "getting prices wrong" regarding interest rates (Amsden 1989). Second, it contributed to the reproduction of labour power and capitalist relations through intensive social policing and labour repression as well as the anticommunist ideology. Third, in the context of the Bretton Wood system and Cold War, it privileged the national economy as the most important spatial scale and controlled the international flow of capital and commodities in order to promote exports, discourage imports to protect infant industries, and secure super-profits for domestic monopoly capital. Finally, these interventions indicate that the developmental state relied on selective top-down government in preventing and compensating for market failure. The main difference between the Keynesian state and developmental state lies in whether the state-led management of investment and risk is carried out extensively for the national economy and citizens as a whole at the universal and macro-level through fiscal and social welfare policy, or selectively/intensively for dominant capital at the micro-level through industrial policy, infant industry protection and labour repression.

In contrast, in the marketist state and society, capital takes the initiative in the management of industrial investment and the related risks. In other words, investment decisions and risk

management are largely privatized, especially in the hand of dominant capital and its related private organizations. Here the role of the marketist state is to create and maintain a legal, institutional and social environment favourable to capital's economic and social domination (or re-embed dis-embedded markets to market society; cf. Polanyi 1957) as well as capital accumulation. We can discern two sub-variants of the marketist state here: the classical liberal and neoliberal states. The classical liberal state individualizes and privatizes its subjects and leaves largely to individuals the responsibility for their socio-economic investment and risk management through 'isolation effect' created by the juridico-political ideology (cf. Poulantzas 1978). This laissez-faire state typically limits its functions to the protection of individual life, body, properties, contracts, and market transactions through the 'apparatuses of security' such as defense, police, justice, etc. (Foucault 2007). In contrast, as implied earlier, the neoliberal state goes beyond simple individualization and marketization. It institutionally and strategically supports capital to manage socio-economic investment and risks not only in privatized ways through neoliberal governmental techniques (Foucault 2008), but also and more significantly, financialized and commodified ways through investment banks, mutual and hedge funds, portfolio investment and financial derivatives, labour market flexibilization, the privatization of public services, and so forth. It thus facilitates financial accumulation not only through creating socially and politically favourable environments but also contributing to the rise in the monetary value of financial and non-financial assets. This neoliberal state reflects the hegemony of global financial capital, US-led Dollar-Wall Street regime, and increasing international policy coordination between national states. Against this backdrop, I will explain the development of the Korean state's political forms of representation and articulation, and social and economic forms of governmental intervention from developmentalism to neoliberalism below.

#### **IV. The Origins, Development, and Crisis of the Korean Developmental State**

##### *1. Backgrounds to the Rise of the Korean Developmental State*

The Korean state under the military dictatorship from 1961 to 1987 is often called the developmental state since it led rapid economic growth (average annual growth rate around 10 percent) and industrial development. This 'developmental dictatorship' originated from Korea's geographically, historically, and socially specific situation at that time.

Internationally, the postwar Bretton Woods monetary system controlled international flows capital across borders and adopted flexible standard for free trade. Thus national states could maintain autonomy in their monetary and fiscal policies as well as foreign trade (Bello 1999). Also in the context of the Cold War with the Soviet Union, US President Harry S. Truman announced that the US would support the 'development', i.e. industrialization and democratization of underdeveloped countries in his inaugural address in 1949 (Truman 1949; Rist 1997). Thus the Bretton Woods system and the Cold

War opened up space for the Third World countries to protect their economies from transnational capital and pursue autonomous industrial development. For the control of the international flow of capital and commodities enabled the national state to manage and absorb investment risks effectively through fiscal and/or industrial policies.

Among others, the East Asian region, together with Western Europe, was in the forefront of the Cold War. In particular, the Korean War involved the United States, the Soviet Union and the People's Republic of China, the three major players of the Cold War game. Thus, in order to defend the bulwark against communism, the US provided South Korea with an enormous amount of military and economic assistance, which nearly equalled the US's total aid to the African continent. In addition, the US generously opened the domestic markets to Korean products (Lee 2003; Jeong 1997; Johnson 1998). Japan too contributed to Korea's economic growth through export. After the normalization of diplomatic relations, Japan not only paid reparation and extended loans for the 35 years' colonial rule but also relocated less profitable industries to Korea, helped Korea's industrialization through technical cooperation, and marketed Korea's OEM products abroad. This incorporated Korea into Japan-led 'flying geese' production network in the region, which was organized according to Japanese product cycle (Castley 1997; Burkett and Hart-Landsberg 2000). In short, Korea could benefit from US aid and markets, Japanese money, technology, and marketing, and these advantages clearly came from Korea's geopolitical and geoeconomic position.

Domestically, the rise of the Korean developmental state originates from the expansion of the repressive state apparatuses under the Japanese colonial rule ('overdeveloped state') and the expansion of the modernized military forces after the Korean War (Choi 1993). Though state-led economic development had been planned well before the 5/16 military coup in 1961, it gained strong momentum through military dictatorship. The military government originally intended to penalize the chaebol (family-dominated conglomerates) for corrupt and illicit wealth accumulation in the previous Rhee Syngman government, but eventually accepted them as the partner in economic development. As a result, 'state-chaebol developmental coalition' was created based on business-politics collusion (Y.C. Cho 2007).

## *2. The Developmental State Forms*

### (1) Political Form

Politically, the Korean developmental state took a form of authoritarian military dictatorship. The Park Chung Hee government lasted for 18 years from 1961 to 1979 (the 3rd and 4th republic) and the Chun Doo Hwan government reigned for 8 years from 1980 to 1987 (the 5th republic). Out of the total 26 years, 17 years suffocated democracy not only substantively but also even formally: military junta (1961-1963), 4th republic after the Yushin or Restoration (1972-1979), the 5th republic (1980-1987). Power was largely concentrated to the presidency, military, and central intelligence agency (KCIA). The presidency was elected indirectly by deputies but the opposition parties are de facto excluded from the process. Park was de

facto guaranteed lifelong presidency through this system, and Chun tried to extend this system beyond his term before he met strong social protests in June 1987. The National Assembly activities were also suffocated since one third of its seats was guaranteed to be pro-governmental politicians even before the general election during the Yushin period while the opposition party activities were substantially prohibited during the 5th republic. Furthermore, even the formally democratic period (1963-1972) saw substantial repression of democracy: for example, armed crackdown on the protests against the normalization of diplomatic relations with Japan in 1964; and the constitutional revision that allowed Park's third term in office in 1969. During this military dictatorship, plenty of opposition party members, student activists, and anti-government intellectuals were terrorized, tortured and imprisoned. Also the state greatly interfere with citizens' everyday life: hair style and length, skirt length, and curfew hours.

However, all this dictatorship and authoritarianism was justified by the state of emergency, i.e. the confrontation or quasi-warfare with North Korea. The Korean war brought up anticommunism as well as military dictatorship, and this, in turn, transform South Korean society into a 'barrack' (H. Y. Cho 2007, 2010). Inherited from the Japanese colonial period, the repressive school and military culture was succeeded to workplaces even after graduation and discharge from military service: hence workers became 'industrial warriors', and this corporate culture still lingers in many work places (Kang 1996).

## (2) Governmental Form

The Korean state pursued state-led development. First of all, the concept and discourse of 'development' was introduced and '5-year economic development plan' was established. Conceived in 1958 first, a total of seven plans were composed and implemented from 1962 to 1996 (renamed 5-year economic and social development plan from the 5th plan). Economic development was not in the free hand of markets and private sectors, but in the state's active efforts to accelerate economic growth through social and economic resource mobilization. In this process, the state practiced the so-called *kwanchi* (dirigisme). It attempted to control almost every sector of the economy including industry, finance, labour, price, foreign exchange, foreign trade, and savings to manage investment risk and support capital accumulation. If needed, it even restricted private property rights: e. g. 8/3 presidential decree that froze private debts in 1972 (Lie 1998).

Key to state-led economic development was not merely economic income and revenues but also and more importantly industrialization. In particular, Korea upgraded industries from light through heavy and chemical to electronic and communication industries. This reflected the geopolitical situation which demanded the development of defence industries: the intensification of the Vietnam War and North Korea's military provocation from the late 1990s, the partial withdrawal of US troops from the Korean peninsula, the US's normalization of diplomatic relations with mainland China. Though



domestic demand was insufficient and the prospect for export was not promising, the Korean state pushed forward heavy and chemical industrialization in automobiles, shipbuilding, electronics, etc. The primary goal was to secure military supplies through import-substitution without depending on the US. According to Oh Won-Cheol, the then presidential economic aide, it followed an ‘engineering approach’ that linked the growth of GNP per capita with industrial upgrading. In other words, long-term industrial development and engineering interest came before short-term concern with economic profits and income (cf. Oh 1996).

However, resources were limited. Korea’s technical standard and knowledge was very poor and thus plenty of foreign exchanges were needed to import foreign technology and capital goods. Foreign exchanges could be secured either through export or foreign debts. In this sense, the role of export was not to make profits but to earn foreign exchanges. In addition, the state mobilized people’s savings: not only did the government encourage savings but also growth-driven inflation constrained people’s consumption and transferred their wealth to the industrial sector. Capital thus mobilized is then relocated to strategic sectors through the state-owned banks. The military government nationalized chaebol-owned banks after the 1961 coup, and the state did not abandon the managerial control even after the banks were officially privatized in the early 1980s until the 1997 economic crisis. Due to industrial demand, capital was always short and interest rates high, but the government got “prices wrong” to provide strategic industries with policy loans at much lower rates: less than 10 percent per annum when the price increased by more than 20 percent a year—negative interest rates that guaranteed more than 10 percent profits a year (Amsden 1989). Furthermore, as mentioned above, through 8/3 decree in 1972, the government even rescued the businesses nearly defaulted on private loans. Given the rate of inflation, debt freeze for 5 years meant de facto debt cancellation. In return, the private lenders were approved of their private loan businesses (Lie 1998).

In addition, the government financed exporters at similarly preferential rates if they had received purchase order to manufacture exports. Thus exporters made more profits from preferential trade finance than export a such. Accordingly, Korean products could be priced all the lower abroad. Thus the main role of export was not to make profits but to secure foreign exchange (though current account was in deficit during the developmental dictatorship), increase industrial competitiveness through competition abroad, and create economies of scale. In contrast to such export promotion, import was strictly regulated through tariff and non-tariff barriers in order to protect import-substituting infant industries. In particular, importers needed a proof that either the import items were necessary for manufacturing exports or they had exported as much before. Besides, foreign direct investments were confined to selected export processing zones such as Changwon and Gumi. Foreign ownership of Korean businesses was prohibited. With foreign imports and investments regulated, Korean manufactures benefited most since it could sell lower quality products at higher prices to domestic consumers (Hart-Landsberg 1993).

Last but not the least, the military government attempted to constrain wages and consumer

prices (in particular, food price) in order to help reduce production costs. It controlled Federation of Korean Trade Unions, the then only national trade union, and workplaces and shop floors were organized like barracks. Furthermore, it violently repressed workers' protests and strikes (Choi 1990). For example, the police violently broke up and arrested female workers protesting against unfair dismissal who sat down in the headquarters of New Democratic Party, then the major opposition in 1979. Even the Labour Standard Act was not (and still is not) observed well, and Korea was proud of the longest working hours in the world. Protesting against this situation, Jeon Tae-il, a tailor at Peace Market, committed suicide in 1970, shouting "We are not machines. Enforce the labour code" (Hart-Landsberg 1993). Despite the harsh working conditions, there was little social welfare provision (regarding health, unemployment, and retirement) by the state but only limited family and company welfare available to working people.

The chaebol grew rapidly through such preferential policies for heavy and chemical industrialization. They could not but rely on the government since they could not secure scarce financial resources themselves, and this deepened business-politics collusion. With the help of the government, they could borrow heavily and invest aggressively to implement the government's plan. The collusion with the government reduced and stabilized risks in the chaebol's entry to new businesses. The chaebol secured foreign exchanges and trade finance loans at preferential rates through the export of light industry products, and upgraded their businesses and profits through preferential industrial policy loans. In addition, the chaebol benefitted greatly from domestic market protection and super-exploitation of labour. As a result, capital accumulation was accelerated and the Korean economy grew fast. Rapid economic growth led to the shortage of workforce and hence the rise of wages despite the flexibility and wage control in labour markets.

### (3) Listian Spatio-Temporal Matrix of the Korean Developmental State

For capital to accumulate rapidly and regularly, two potentially contradictory conditions should be met. First, short-term profitability should be secured while long-term development should be enabled. It is not easy to meet the two conditions simultaneously since long-term investment to raise long-term profitability in the distant future are highly risky while short-term investments to increase short-term profits in a foreseeable time horizon are relatively safe. Long-term development requires to use current profits for uncertain investments, and this, in turn, would slow down current accumulation and growth. Second, market should be free and regulated. While raw materials, technologies, and financial resources should flow freely, spatial monopolies are required to secure super-profits. However, it could be contradictory to allow and restrict free flows and operations simultaneously.



Nonetheless, the Korean developmental state in the context of Bretton Woods system and the Cold War provided an ideal environment for the chaebol. The economic policy followed Friedrich List who argued for the spatial protection of infant industries to catch up advanced industrial nations in short time in the historical context of late industrializing Germany in the 19th century.

First, short-term stability and profitabilities are achieved along with long-term industrial development: hence the so-called 'compressed growth'. While labour intensive light industries provided short-term profitabilities, heavy and chemical industrialization maintained and upgraded profitabilities in the long term even after the labour intensive industries faded away. In particular, the government helped the chaebol to secure both the short- and long-term profitabilities by compensating for the losses from or reducing the risk from long-term investments and industrial development based on high leverages, with foreign exchanges, preferential loans, subsidies, and strategic industrial planning. In addition, the chaebol's own diversified investments, cross-holding, cross-guarantees contributed to the reduction of business risks (Y.C. Cho 2007: 267). As a result, the chaebol achieved both high-speed capital accumulation and industrial upgrades at the same time. Based on technological learning and catch-up, a swift shift was made from low value-added, labour intensive industries to high value-added capital-intensive industries (Amsden 1989; Porter 1990).

Second, free access to foreign capital, technology, and markets was combined with low-wage workforce and monopolies in domestic markets. The Korean developmental state could create asymmetrically closed space that combined openness in export and closure in import, i.e. export-orientation and import-substitution. It thus basically closes and protects the national economy against foreign commodities, but opens some part of it so that export and industrial development can sufficiently promoted (e.g. capital, capital goods and raw material imports). On the one hand, the economy was closed to enable super-profits as well as industrial development. The domestic markets were strictly controlled. Infant and consumer goods industries were protected from the pressures of international competition. Disciplined by authoritarian, patriarchal, and barrack-like shop floor under the 'state corporatist regime', the workforce remained cheap, competent, and industrious. In other words, the workers bore with highly intensive labour and exploitation (Koo 2002). As a result, a highly competitive and super-exploitative spatial environment was created to enable low prices and super-profits. Key to the rapid economic growth were the chaebol's exploitation of workers, consumers, taxpayers and bank depositors through low wages, low-quality consumer goods, state subsidies, and high inflation respectively. At the same time, the economy was open largely in relation to export to secure adequate resources for industrialization (foreign exchanges, technologies, and capital good): US and other international consumer markets were generously open to Korean exporters through Japanese marketers for strategic reasons; capital was mobilized through international loans as well as US's and Japan's financial aids; and technologies, machines, and components are secured mainly through Japanese capital (Castley 1997).

#### (4) Crisis and Crisis Management

Despite all the strengths, the seemingly successful Korean developmental state was not free of its own limits and crisis tendencies. First, as military, catch-up and engineering concern with industrialization prevailed over economic profitabilities, it could tend towards overinvestment and overproduction. Furthermore, the high indebtedness incurred high financial costs in corporations despite preferential policy loans. Second, state-led industrialization led to chronic inflation and financial resource allocation by the government deepened business-politics collusion and rent-seeking (Kang 2002; Woo-Cumings 1999). Third, economic development dependent on foreign debts, technologies and capital goods produced chronic deficits in international balance of payments (until mid-1980s), thereby increasing the risk of foreign debt crisis. Fourth, though in parallel with import-substitution strategy in heavy and chemical industries, the export-oriented strategy made the Korean economy highly dependent on and vulnerable to the export market condition as cheap domestic labour discouraged the growth of domestic demand. Finally, the lack of democratic legitimacy due to authoritarian military dictatorship often unstabilized political situations despite oppressive government.

After all, heavy and chemical industrialization created over-capacities, economic recession, and foreign debt crisis in 1979. and this interacted with a series of political events to cause a serious political crisis: women workers' strike at YH Trade Corporation, the opposition party leader Kim Young Sam's purge from the National Assembly, the riot in the heavily industrialized Busan-Masan area, the conflicts at the top of the military regime, and the assassination of President Park on 26 October, 1979. However, this political crisis was silenced by another military coup led by General Chun (12/12 arrest of the chief of staff and the suppression of 5/17 Gwangju uprising). In addition, foreign debt crisis was successfully coped with the emergency loan from Japan that accepted the request of the US, which was worried about the security of the Korean peninsula (Cumings 1989). Out of the crisis, the Korean developmental state saw its heyday in 1985-1988 with the so-called 'boom with three lows' (in currency value, oil price, and interest rates) and enormous international trade surplus.

#### (5) The Structure of the Korean Developmental State as a Listian Security National State.

In sum, the Korean developmental state took a semi-fascist military dictatorship form politically, its power being articulated around the presidency, military and intelligence agency that often involved terror and torture of the opposition. In addition, it could be described as a Listian national security (or quasi-warfare) state in terms of governmental form (Cho and Jessop 2001). Listian economic government established economic development plans, protected infant industries but exposed them to international competition in export markets, prioritized industrial development over monetary profitabilities, reduced long-term investment risks, and accelerated accumulation by

conditioning super-profits. The social policy relied mostly on policing and repression rather than social welfare, and workplaces were modelled on barracks. Spatially, the Korean economy was incorporated into the international division of labour under the Japanese flagship, but it could implement its own national industrial policy in the context of the Bretton Woods system that controlled the international flow of capital and commodities. Market failures were compensated for by state intervention and financial aids from without.

**Table 1. The Structure of the Korean Developmental State**

Spatial Scales	Political Economic Regime
Global	<p><b>Political:</b> The Cold War between western capitalism and eastern socialism</p> <p><b>Economic:</b> Bretton Woods system, gold exchange standard, and capital control</p>
Regional (East Asian)	<p><b>Political:</b></p> <ol style="list-style-type: none"> <li>1) East Asian Cold War: Confrontation with North Korea</li> <li>2) Korea-US-Japan alliance and Vietnam War</li> </ol> <p><b>Economic:</b></p> <ol style="list-style-type: none"> <li>1) US aids to Korea</li> <li>2) The Japanese-led ‘flying geese’ regional production system. <ul style="list-style-type: none"> <li>- ‘Scrap-and-build’ strategy based on Japanese product cycle.</li> <li>- Japanese capital’s regional investment.</li> </ul> </li> </ol>
National (Korean)	<p>Authoritarian developmental state + Chaebol-led accumulation regime.</p> <p><u>Authoritarian politics and developmentalist government:</u></p> <ol style="list-style-type: none"> <li>1) Political Form: <ul style="list-style-type: none"> <li>- Representation: Military dictatorship:</li> <li>- Articulation: power concentrated to presidency, military, central intelligence agency</li> </ul> </li> <li>2) Governmental Form:</li> </ol> <p>Economic Policy</p> <ul style="list-style-type: none"> <li>- National territorial economic management with Listian infant industry protection- Central planning and investment coordination: “5-year economic development plan“</li> <li>- “Engineering approach“ with military concern; industrial development over monetary profitabilities</li> <li>- The statization of business risk through investment coordination and “getting prices wrong: preferential industrial and trade finance loans through nationalized banks</li> </ul>

	<p>Social Policy</p> <ul style="list-style-type: none"> <li>- Labour repression and wage control</li> <li>- Limited family and company welfare</li> </ul> <p>Governance (countering market failure)</p> <ul style="list-style-type: none"> <li>- Government rescue of corporations</li> <li>- US and Japanese aids</li> </ul> <p><u>Chaebol-led accumulation regime:</u></p> <ol style="list-style-type: none"> <li>1) Government-chaebol relationship: politics-business collusion; and rent-seeking</li> <li>2) Accumulation strategies:- Finance: high debts and high investment- Workforce: labour exploitation- Capital goods: Foreign technology and capital goods- Production: technological learning; - Sales: Exports based on price competitiveness and Japanese-dependent marketing (OEM) + domestic monopolies</li> </ol> <p><u>Listian Developmentalist Spatio-Temporal Matrix</u></p> <ol style="list-style-type: none"> <li>1) Compressed growth: High-speed capital accumulation, long-term industrial upgrades and import substitution through policy loans, subsidies, and labour exploitation.</li> <li>2) Asymmetrically closed space: Infant industries protection through import restriction/substitution, but with 'managed openness' to foreign markets, credits, and technologies for export growth.</li> </ol>
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#### IV. The Origins, Development, and Crisis of the Korean Neoliberal State

##### 1. *The Fall of the Developmental State in Korea*

###### (1) Changes in the International and National Balance of Social Forces

The heyday of the developmental state was, however, the beginning of the crisis (Jeong 1997). The Korean developmental state confronted with serious challenges both nationally and internationally. First, the international environment and balance of forces changed. The postwar Bretton Woods system collapsed in the 1970s, the US twin deficits (in fiscal and current accounts) in the early 1980s, and the new detent arrived with Gorbachev's perestroika and glasnost in the Soviet Union in 1985. As a result, the US foreign trade policy turned around: protectionism against Korean products and increased pressure for opening Korean market (Bello 1999). In addition, as the spread of neoliberalism and hegemony of transnational financial capital augmented the finance-dominated Dollar-Wall Street regime, the pressure for capital market opening became stronger (Gowan 1999). Besides, Japan began to expand the regional production network by moving less profitable production lines to Southeast Asia in the 1990s. This, in turn, intensified international competition and saturated North American and European export markets. Furthermore, Japan prohibited technology transfer to Korea from the 1990s in order to deter Korea's catch-up industrialization (Hart-Landsberg and Burkett 2001).

Second, the domestic environment and balance of forces changed. The demonstration in June 1987 restored the formal liberal democracy eventually through the constitutional revision. As a result, more than 3,000 labour strikes and protests occurred to organize

unions, and improve working conditions. In turn, Korean Confederation of Trade Unions (KCTU), a democratic trade union, was established, and wages rose greatly (Koo 2001). Meanwhile the chaebol became less dependent on the government-allocated finance since they could mobilize capital by themselves through the 'boom with thee lows' and entry into the non-banking financial sectors (insurances, securities, investment trusts, etc.) (Kim 1993). Finally, with the rise of wages and the liberalization of overseas travel, the middle class increased and consumerism kicked off.

Third, the developmentalist government began to destroy itself and liberalize the economy from the late 1970s. US-trained neoliberal bureaucrats such as Kim Jae-Ik (then presidential aide for economic affairs) and Kang Kyung-Sik (finance minister) took the lead in such marketist liberalization that aimed to limit state intervention in the economy. For example, the government privatized (though it continued to control) commercial banks, and abolished selective industrial policy that provided preferential loans to strategic target industries in the 1980s (Chang et al 1998). It resulted in price stability and low interest rates in the mid-1980s. However, neoliberal reform could not be implemented in a straight forward way. For there was strong opposition from the establishments including the chaebol and authoritarian politicians, and Kim was killed by North Korea's terror. Nonetheless, neoliberal reform soon resumed with the democratization in 1987 and the return of more and more US-trained neoliberals to the government and academia in the 1990s. As "three lows" turned into "high cost, low efficiency (high wages, interest rates, and logistic costs)" in the 1990s, the chaebol also lobbied the government to permit overseas borrowing. Furthermore, the US continued to press for and demanded market opening in exchange of Korea's OECD membership. Finally, Kim Young Sam government abolished 5-year economic and social development plan, declared globalization, and started financial liberalization.

## (2) The Breakup of the Listian Developmentalist Spatio-Temporal Matrix

The structural changes in the international and national environments and balance of social forces tear down the developmentalist spatial matrix of accumulation. The cost advantages from cheap labour and capital, and the resultant super-profits in the domestic market and the price advantages in the export market vanished. The structuration of the Dollar-Wall Street regime, the end of the Cold War and the aggressive US foreign trade policy; the expansion of Japan-led regional production network to Southeast Asia and China, political democratization, economic liberalization, chaebol's increased autonomy, and the rise of labour movement and disputes raised production costs and reduced overseas markets (Cuming 1998; Johnson 1998). The asymmetrically closed space, which combined domestic monopolies and free access to foreign technologies and markets, was exploded with the annihilation of developmental state capacity to secure super-profits by reducing production costs, in particular, labour and financial costs.

On the other hand, the abolition of developmental industrial policy (such as government subsidies, strategic support, investment coordination) led to the increased risk of long-



term investment as well as the end of short-term super-profitabilities. For example, the benefits of trade finance loans decreased from 1982, and preferential loans to chaebol corporations were completely abolished in 1988. The contradiction between short-term profitabilities and long-term development was no longer managed effectively;

In sum, the balance of social forces that sustained the developmental capacities of the Korean state changed both nationally and internationally. US pressure to open commodity and capital markets, increasing rivalries within Japan-led production networks, Korea's democratization, labour movement, the strengthened chaebol, and neoliberal reform resulted in not only the weakening of state autonomy and capacity but also the fall of the developmental state in Korea.

## *2. The 1997 Economic Crisis and Neoliberal Restructuring*

### (1) The Economic Crisis

In response to the increasing crisis tendencies, the Kim Young Sam government tried to reform the chaebol, finance, and labour as well as deepening financial globalization and liberalization. However, financial globalization ended up with massive short-term foreign debts since only short-term borrowings were deregulated while long-term borrowing were regulated. The chaebol reform aimed to increase corporate competitiveness but it failed to improve their governance structure and resulted in the chaebol's overcapacity: Samsung entered into automobile industry, Hyundai and Kia built steel mills, and mid-sized chaebol such as Hanbo and Jinro borrowed 5 to 20 times as much as their equity to invest in risky businesses. In addition, labour reform failed to improve conflictual industrial relations. The government rushed a labour bill that did not approve the KTCU and legalized layoff in big corporations in December 1996, thereby resulting an unprecedented scale of general strike in January 1997: the bill was revised again to postpone labour market flexibilization. Finally, Kang Kyung-Sik, one of the originators of Korean neoliberalism, took a position of deputy prime minister and finance minister in early 1997, and attempted at neoliberal financial reform. However, the financial reform bill failed to pass the standing committee in the National Assembly due to the central bank's disagreement with the bill and the imminent president election. In short, corporate, financial and labour reforms all failed. The balance of forces between the government, capital and labour was such that no state-led reform could be successful (Lee 2005; Kim 1998).

Finally, Korea fell into a serious economic crisis. 1996 saw a record-high deficit in international balance of payment. This was a result of the fall in the prices of semiconductors, Korea's main export, due to intensified international competition. In addition, short-term foreign borrowings increased greatly. As a result, Korea became vulnerable to foreign exchange and debt crises. And this vulnerability turned into a crisis with a series of corporate bankruptcies, the mounting non-performing loans in credit



banks, and the government takeover of these debts. Furthermore, as the financial crisis spread from Southeast to Northeast Asia foreign investors started to flight from Korea. In particular, they refused to roll over and withdrew short-term loans. As the crisis deepend, the Korean government asked the US, Japanese and Chinese governments for bilateral financial assistance, but the Dolloar-Wall Street regime and US government only allowed the (de facto US-controlled) IMF bailout with all its conditionalities such as financial liberalization and market opening.

## (2) Neoliberal Restructuring

The intervention of the US and IMF concluded the 10-year long struggle between neoliberal bureaucrats, chaebol and labour since the 1987 democratization. In its own words, the IMF programme "tip the balance of power" between the state, capital and labour (IMF indendent office 2003). Since then, the Korean economy has been significantly neoliberalized.

First, the IMF program included not only what the US demanded but also what Korean neoliberals had long wished for. On the brink of Korea's national default, Kim Ki-Hwan, a colleague of the late Kim Jae-Ik and and then Korean ambassador at large for economic affairs appointed by Kang, flew to Washington, DC. Beyond his descretion, Kim agreed with the US Treasury on the "IMF plus", i.e. further liberalization of the Korean economy beyond the original agreement with the IMF (Blustein 2001). It included not only the full liberalization of foreign investments but also labour market flexibilization measures, that is, the legalization of layoff and manpower lease system that the government tried but failed to introduce in 1996-97 due to organized labour's backlash. Also it included policies from the once failed financial and corporate reforms. However, they were all packaged as if they were demanded by the US and IMF (Mathews 1998). In this context, the tripartite commitee, though originally designed to involve labour in policy decision, was in fact used as an institution to legitimate and derive agreement on labour market flexibilization. The redundancy threats not only made the majority of organized labour follow an economicist and reformist line but also significantly decreased labour organization ratio with the decrease of regular job and the increase of unorganized irregular, casual, and contingent workers (now accounting for around 50 percent of the wage labour).

Second, the state of emergency and the IMF bailout empowered the newly elected Kim Dae Jung government (1998-2003) and the neoliberal bureaucrats, and thus state capacity to push forward structural reform was renewed. However, this capacity was not of a developmentalist nature. For not only did the structructural reform follow DJ's "democracy and market economy" doctrine, but also a newly established, neoliberal-led financial supervisory commission took the initiative. It set the new corporate, financial and labour standards and pushed forward radical reforms in the corporate, financial, labour, and public sectors. In contrast to the developmental state that prioritized industrial development, the new state prioritized financial soundness, profitabilities by adopting new standards such as BIS capital adequacy ratio and corporate debt-to-equity ratio cap. Despite the sharp rise of

unemployment due to corporate bankruptcies and mass job losses, the primary focus of economic policy was thus on the recovery of foreign reserve and troubled banks and financial institutions. Thus the attraction of inward foreign investment and the rehabilitation of the banking and financial sector became a major policy objective. As a result, transnational financial capital's presence in the banking sector and stock market has dramatically increased: virtually none before the 1997 economic crisis but now over 50 percent and 30 percent respectively. In addition, though temporarily nationalized through public fund injection, most of the commercial banks recovered quickly, were privatized again, and became independent from government with the attraction of foreign investments. In turn, commercial banks's business focus shifted from corporate finance to household loans and retail banking including mortgage lending and credit cards, and their size and profitabilities greatly increased. In addition, financial accumulation increased dramatically: stock market price sharply rose; private pensions and insurances as well as mutual funds became a boom; and the scale of financial derivative transaction became largest in the world in the 2000s.

Third, meanwhile, creditor banks were expected to lead corporate restructuring in line with the so-called logic of market without interference from the government. Accordingly, creditor banks applied short-term financial criteria rather than long-term industrial criteria in assessing corporate management during the restructuring of the troubled chaebol ('workout'). As a result, despite all the trials and errors and continual governmental intervention, financial health and profitabilities became a prevailing business standard: for example, debt-to-equity ratio had to be no more than 200 percent. Out of 30 largest business groups (as of 1997), 16 groups (including Daewoo) were broken up since they fail to meet new criteria. In contrast, surviving chaebols such as Samsung and LG complied with new criteria and shifted their focus from size to profitability, thereby radically cutting their debts and increasing profits from financial business. Consequentially, neoliberal reform improved the chaebol's financial conditions and profitabilities. The government's export promotion to raise foreign reserve through exchange rate fix helped here, too. As a result, the surviving chaebol's economic and political power has become even stronger with their enhanced financial structures and increased contributions to export. However, neoliberal restructuring also contributed to the decline of growth potential of the Korean economy as longer-term investment tended to grow very slowly (Ji 2011).

In sum, Korea's post-crisis structural reform made the financial logic or mode of calculation dominant vis-à-vis industrial logic through foreign capital inducements, finance-led corporate reform, the financialization of corporate activities, and the increased autonomy of the financial sector (both from the government and the manufacturing sector). In addition, it empowered transnational financial capital and top chaebols as well as neoliberal faction within the government while weakening organized labour. Now that financial logic was prioritized over industrial development and that economic power largely shifted to capital, the Korean state can no longer be considered as a developmental

state but as a neoliberal state.

### *3. The Neoliberal State*

#### (1) The Political Forms: Representation and Articulation

It can be said that the Korean neoliberal state has taken a representational form of ‘authoritarian statism’ or ‘post-democracy’ since the Kim Dae Jung government (cf. Poulantzas 1980; Crouch 2005). Authoritarian statism is characterized by the irresistible rise of the state administration; intensified state control over every sphere of socio-economic life; the radical decline of the institutions of political democracy; and the draconian and multiform curtailment of the so-called liberties despite the transfer of power through regular elections (Poulantzas 2000: 203-204). Colin Crouch analyzes these tendencies in terms of what he calls ‘post-democracy’ (2005). In the ‘post-democratic’ regime, power shifts to a few elites and wealthy classes, and democracy is reduced to free election despite the multiparty system and free and open speech. In other words, democracy is formalized in the interest of capital. This happens because the working class weakens as a political force and new social movements are depoliticized while transnational capital’s influence over the political class (bureaucrats and politicians) strengthens: hence the government has little connection to the rest of society but dominant capital and their associated elites. In this context, the central bank becomes independent of democratic control to be dominated by ‘experts’ (bankers and economists) (Arestis and Sawyer 2005: 205-206). In addition, decisions are increasingly made in secret (but in consultation with dominant capital and elites) and politics are increasingly judicialized as the legality presides over the democratic will of the people.

The Korean state exhibits these characteristics clearly. Although it maintains a liberal democratic form in which governmental powers are transferred through free election, power substantially lies in neoliberal economic bureaucrats, the chaebol, and transnational financial capital. Accordingly, major economic decisions of the Korean government tend to be made through administrative and juridical means in favour of dominant chaebols and transnational capital rather than democratic means (Ji 2011). Thus the Korean takes a form of legal democracy that prioritizes private property rights in respect of representation. Furthermore, dominant chaebols such as Samsung and Hyundai exert significant intellectual and political influences over the government in various ways: hence the so-called “Samsung Republic” (cf. Lee 2010). Also in respect of articulation, the Korean state exhibits the supremacy of the administration and court over parliament and the hegemony of finance ministries within the administration. Indeed, the number of administration-initiated legislation significantly increased in the post-crisis period; and prosecutions and litigations are frequently deployed against politicians and labour strikes (Lee 2010: 152-156, 163-166). In contrast, the National Assembly has been largely excluded from state management and policy-making (cf. Kang 2011: 28). For example, the controversial Korea-US FTA was negotiated virtually in secrecy even without disclosing detailed contents to the National Assembly during the allegedly democratic and participatory Roh Moo Hyun government (2003-2008). Despite the recent discourse of the so-called “economic democratization”, it is likely that the Korean state would only make minimum efforts to materialize it into legislations and policies to reduce socio-economic disparities. For this discourse remains largely an empty signifier because

there are virtually no social forces that would press hard to realize it into tangible policies and institutions.

In short, the political form of the Korean neoliberal state is characterized by the formalization of democracy, the dominance of administrative branch (especially the neoliberal financial ministry), the judicialization of politics, and increased power of the chaebol and transnational capital. And all this contributes to the creation of an environment favourable to the neoliberal state intervention, which enables and enhances the privatization and financial commodification of investment and risk management.

## (2) Governmental Forms: Intervention

The neoliberal forms of government or intervention can be discussed in terms of economic policy and strategy, social policy and strategy, spatial division of labour, and governance. Though it shares many characteristics with the Schumpeterian competition state as its sub-variant (cf. Jessop 2002: 262), it is characteristic in respect of its primary focus on financial capital-led investment decision/coordination and the promotion of profits through the privatized and commodified management of investment and related risks in the form of financial investment. Thus, rather than fully retreating, the neoliberal state typically involves selective retreat in industrial promotion and social welfare, and the transformation of state functions and modes of intervention for the sake of financial accumulation, especially the financial commodification of risk and risk management including the privatization of social and public services and labour market flexibility under the name of 'competitiveness'.

### A. Economic Policy and Strategy

In contrast to developmental statist intervention that foccuses on industrial development, the economic policy of the Korean neoliberal state focuses on financial accumulation as well as international industrial competitiveness.

### Financial and Monetary Policy

While Keynesian state intervention focuses on fiscal policies, the neoliberal economic policy focuses on financial and monetary policies at least at the ideological level. The Keynesian financial and monetary policy limits the mobility of capital, regulates the level of interest rates, and increases the money supply. In contrast, typical neoliberal financial and monetary policies liberalize capital mobility and interest rate upwards while constraining inflation to protect financial asset value (Campbell 2005: 193-195). In the US, real interest rates remained 1 or 2 percent in the 1950-60s or even recorded negative in much of the 1970s. However, they jumped to nearly 4 percent in 1979 and higher in the 1980s (Campbell 2005: 194).

Increased capital mobility enables capital to make profits and manage related risks on its own through financial arbitrage, portfolio movement, and the globalization of production. In addition, higher interest rates protect the value of financial assets, promote the



the restructuring of uncompetitive capital, and as a result, damage organized labour. However, it should here be noted that neoliberal monetary policy does not necessarily follow a monetarist line of higher interest rates and austerity. Interest rates can be lowered to boost asset markets such as real estates, stocks, etc. In addition, in the period of financial instability and crisis, the neoliberal state has to play the role of lender of the last resort (cf. Campbell 2005: 195). That is, at the time of crisis, the neoliberal state is primarily concerned to clean the financial sector through public fund injection and enhance financial health through prudential regulation in order to protect the financial rentier's private property and its monetary value (cf. Harvey 2005: 73).

In the Korean case, the IMF conditionality after the 1997 crisis included the full opening of financial and capital markets including the liberalization of foreign ownership of stocks, corporations, and real estates. In addition, the Korean government fully complied with the IMF-stipulated austerity measures including higher interests (overnight call rates above 30 percent per annum) and fiscal surplus in the initial period of structural adjustment. This was a deliberate choice to accelerate restructuring and crush organized labour against it (Crotty and Lee 2002: 669; Ji 2011: 244). However, after the first round of financial restructuring was over, interest rates began to normalize from late 1998 and continued to go down to boost the economy, and as a result, the floating funds went to financial and real estate sectors from the early 2000s to create a boom and then a massive bubble in the housing markets.

In this context, the Korean state has actively been developing the financial industry. In response to the financial crisis in 1997, it strengthened financial and prudential regulations to enable private and market-led risk management: the integration of financial supervisory organizations, the introduction of 'forward-looking criteria' for assessing bad loans, the 'permanent corporate restructuring system', stricter regulations on the BIS capital adequacy ratio, etc. As said earlier, it also stabilized financial markets by injecting massive public fund and inducing foreign capital to the financial sector, thereby expanding the basis of financial accumulation (especially through increased household credits and securities investments which have developed into a new source of crisis recently). Then the Korean government started its ambitious project to establish the financial sector as an independent growth engine, and create regional financial centres in Seoul and Busan (the so-called 'East Asian financial hub'). For this purpose, it enacted capital market integration in 2008, introduced the international financial reporting standard (IFRS) in 2011, permitted investment banks and hedge funds in 2012. In addition, it established Korea Investment Corporation as a sovereign wealth fund in 2005, lured foreign financial businesses with the national pension fund (4th largest in the world in its kind as of 2011), and tried to purchase now bankrupt Lehman Brothers in 2008 and to create a Korean Goldman Sachs or megabank through M&A or the privatization of Korea Development Bank in 2011 (though failed) (Ji 2011: 393-395; Hong 2012: 76-78). In doing so, it also helped the chaebol to expand their operation into financial business by easing the regulations on holding companies (Kim 2011: 125).

These measures all extend private property rights, privileges the financial sector, promote

financial accumulation, and discourages long-term industrial development. As a result, though the government did not stop putting policy pressures on the central bank as well as commercial banks in lending and interest rate, the financial sector, dominated by foreign investors, still remains largely autonomous from the state.

## Fiscal Policy

The neoliberal state is ideologically bound with the discourse of 'fiscal health'. The neoliberal state's goal in fiscal management is not to create effective demand or provide social welfare services, but to make surplus in order to cover the previous deficits. As a result, the neoliberal state attempts to brake on the growth of fiscal expenditure in general and social welfare expenditure in particular. However, there is little evidence that the neoliberal state generally reduces fiscal expenditures and deficits in practice; rather the fiscal deficits and state debts tend to increase (MacGregor 2005: 143). This is partly because the state has to actively engage in financial crisis management, i.e. bailout financial capital, due to the inherent financial instability of neoliberal capitalism. In addition, the neoliberal state regressively reduces tax for the rich in the name of investment promotion, and attempts to strengthen the international competitiveness of domestic industries by encouraging technological R&D and controlling exchange rates.<sup>3</sup> Thus what matters is not simply fiscal surplus or deficits, but where the state spends. The neoliberal state freezes or reduces social expenditure but increase fiscal support to troubled financial institutions and export industries. That is, it spends state finance primarily on compensating for the losses made from the failure of privatized and commodified risk management in financial accumulation. It is indeed a regressive redistribution and privatization of public finance.<sup>4</sup>

In the Korean case, social expenditure accounts for only 10.2 percent of GDP as of 2007 and this is the second lowest figure among the 31 OECD countries (next to Mexico; the OECD average is more than 20 percent) (Ji 2011: 422). It is due to too low direct tax rate (17.5 percent of GDP in 2007; OECD average is 24.6 percent) and it continued to go down since 1998: hence the relatively small size of state finance (33.8 percent of GDP in 2009; OECD average is 44.9 percent) (Oh 2010: 57, 110, 114-115). However, this did not stop the Korean government using its fiscal resources to create and maintain a basis of financial accumulation. It spent 168.6 trillion won to clean up the troubled financial sector from 1998 to 2002, but failed to recuperate 67.1 trillion won by 2011 and had borrowed 47 trillion won to cover the loss by 2010. And it continues to inject the public fund to stabilize the financial sector though its scale is much smaller (Ji 2011: 418). Furthermore, it recently began to operate the national pension fund like a financial business and allowed it to invest in stocks to support stock markets and prices (Oh 2010: 51). Besides, the Korean government borrowed 120.6 trillion won to, in effect, subsidize export by stabilizing (or indeed maintaining higher) exchange rates in 1998-2010, and, in so doing, a total of 18.89 trillion loss was made. On the contrary, the Korean government spent only 35.5 trillion won to fight unemployment and create jobs



in 1998 – 2008 although it increased social expenditure and expanded social safety net (Ji 2011: 311, 418-419).

## Industrial Policy

The neoliberal focus on financialization does not necessarily exclude the state's attempts to strengthen the competitiveness of the manufacturing industries. It depends on the nature of hegemonic capital in each nation or region (cf. MacCartney 2011). As a sub-variant of the Schumpeterian competition state, the neoliberal state can also increase the productivity and competitiveness of the manufacturing industries through public investment in education and technological R&D as well as supporting the application of knowledge in production (cf. Jessop 2002; Castells 1996). And more importantly, it can even allow the manufacturing industry to make profits through financial investment or asset value appreciation. In addition, in the context of post-Bretton Woods floating exchange rate system, the neoliberal state enhances industrial competitiveness by fixing exchange rates. For it is easier than any other means to improve international price competitiveness.

The contemporary Korean state too does not neglect on the industrial competitiveness of the manufacturing industries (not as the developmental state but as the competition state). Korea was the first country that produced a detailed case report on the knowledge-based economy in cooperation with the OECD (OECD 2000). In addition to the knowledge service industry such as finance, accounting, law, design, and consulting, the Korean government promoted high-tech industries such as intelligent robots, digital TV, automobiles, batteries, display screens, semiconductors, bio-medicine, mobile communications, intelligent home networks, and digital contents/software by financially supporting R&D investment (Government Briefing Taskforce 2008). Recently, it is also promoting the so-called 'Green Growth' through green technologies and carbon emission trading in the context of the global 'Green New Deal'. Finally, it should be noted that, for a long time, the Korean government has controlled exchange rates either to promote export or to attract foreign capital by depreciating or appreciating the national currency respectively (cf. Ji 2011: 318-319). For example, it is often much easier to depreciate the value of national currency than to innovate the process of production if one is to reduce cost by 10 percent. Thus even in the neoliberal international order, exchange rates are critically controlled or determined by states. However, there is no fixed direction in exchange rate policy as in the case of interest rates. The exportist countries such as Germany and South Korea tend to maintain higher exchange rates for international price competitiveness (the introduction of the Euro has been de facto currency devaluation for Germany, which gave him an advantage in pricing against other European countries). On the contrary, lower exchange rates would be more advantageous in attracting foreign capital as in the case of the US dollar appreciation in the 1995 Reverse Plaza Accord.

In sum, the Korean neoliberal state's economic policy is distinct in many ways from that of the developmental state in the past. While the developmental state limited the exercise of private property rights for industrial development, the new neoliberal state extends the private

property rights through financial development. In addition, while the developmental state resorted to catch-up learning, the neoliberal state is oriented more towards innovation. Finally, while the developmental state decides investment and financial allocation, the neoliberal state let the private sector or market decide.

## B. Social and Labour Policy

### Social Policy

The Korean state can hardly be qualified as a proper welfare state. Although social expenditure (e.g. National Basic Livelihood Security system introduced in 2000) increased considerably since the 1997 economic crisis, it remains basically neoliberal social safety net. For, as seen above, its social expenditure is one of the lowest in the OECD countries and most of its social welfare programs provide a minimum level of social safety net. Thus social services such as housing, education, health care, and old age security are provided mainly through markets rather than the state and are thus characterized by low costs and low qualities (Joo 2012: 310-311). In addition, the Korean state hardly redistributes wealth, and does little to reduce income inequalities through taxation and public transfer (Koo 2011: 232-233). Furthermore, the social welfare program is based on the so-called 'social investment state' and 'workfare' models that treat social welfare as an investment for economic growth and provide welfare benefits on a selective rather than universal basis: e.g. 'productive welfare', earned income tax credit system (EITC), and government subsidies and supports to job training and labour redeployment (cf. Government Briefing Taskforce 2008: 25, 240; Joo 2012).

### Labour Policy

The Korean state is notorious for its longstanding history of repressing labour from the period of the developmental state, and it is still true of the neoliberal period. Labour market flexibilization was one of the utmost priorities in the post-crisis reform in Korea. As mentioned above, the Korean government passed the revised labour bill that allowed redundancies in large corporations and legitimized the manpower lease system, and then crashed organized labour's opposition violently in 1998. Since then, it has tried to create jobs mainly through deregulation, labour market flexibilization, and business-friendly policies (Lee 2011: 295-297). Meanwhile, it has continued to take a tough stance against organized labour and strikes, and the number of labour disputes and imprisoned workers reached a record-high number since the end of the military rule in Korea in 2004 (Ji 2011: 380).

## C. Governance

The Korean state provide a lot of social and public services such as nursing, education, medical care, housing, and other other social infrastructures through the private sector,

in the name of 'governance'. However, it is a form of 'creeping privatization' that commercializes social and public services to create business opportunities and redistribute public finance for private capital's profitability. For example, the Korean state privatized many of its national corporations in the initial period of structural adjustment: Pohang Iron and Steel (2000), Korea Heavy Industries and Construction (2000), Korea Telecom (2002), and Korea Tobacco and Ginseng Corporation (2002). In addition, Korea Rail, Korea Electric Power Corporation, Korea Development Bank, Woori Financial Group, and Incheon International Airport are on the list for sale. Besides, the Korean government is outsourcing many of its SOC (social overhead capital) constructions and operations from private corporations with minimum revenue guarantees (MRG) (Oh 2010: 181). Nominally, it would help reduce government failures through partnership with the private sector. However, what it actually does is to deliberately increase market failure and cover the private losses from SOC businesses with public money.<sup>6</sup>

### (3) Neoliberal Spatio-Temporal Matrix

The neoliberal state is distinct from developmental state in temporal and spatial aspects of capital accumulation. First, in contrast to "compressed growth" time of the developmental state, the neoliberal state creates "timeless time" that discounts (fictitious) profits of the future into present values without waiting and taking time through financialization (cf. Harvey 1982; Castells 1996). Thus, as mentioned above, the Korean state has actively supporting financialization by: enhancing prudential regulation, financial supervision, and risk management; restructuring and integrating capital markets; introducing IFRS; promoting investment banks and hedge funds, etc.

Second, while the developmental state space is asymmetrically closed, the neoliberal state space is asymmetrically open in its most ideal (rather than ideological) form since it discourages the outward flow of capital no matter how successful it is. The neoliberal state creates liberal "space of flows" of commodities and capital in order to promote credit expansion and financial asset growth within the national territory by attracting foreign capital (cf. Castells 1996; Brenner 2004). Since it does not prohibit the outward flow of capital under the Dollar-Wall Street regime, the neoliberal state has to make relentless efforts to attract and hold capital by creating spatially-specific business advantages (e.g. the scope for regulatory arbitrage such as low tax or tax exemption) through various spatial projects and strategies including FTAs and global financial centres. The flight of capital is easy, but the attraction of capital is very difficult since the latter depends on global capital market's assessment of cities, regions, and countries.

The Korean state's recent spatial projects such as Incheon Economic Free Zone, Jeju Free International City, FTAs with (US, EU, ASEAN, Chile, Singapore, etc.) and global/regional financial centres (Seoul and Busan) can be interpreted in this context. In particular, its FTA strategy is to transform Korea into an all-at-once global FTA centre that provides competitive advantages in exporting commodities and attracting foreign capitals through the best access

to the world market. In addition, the advocates of FTA claim that it would strengthen the international competitiveness and productivity of domestic service industries. Similarly, the global financial centre plan also aims to attract and hold financial capitals in order to make profits from financial asset management business as well as financial mediation, transaction, and settlements and to strengthen the international competitiveness of the financial industry. The government is willing to offer preferential support to transnational financial capital including the commission to manage part of the national pension. Although the project for the global financial centre plan remains uncertain, these efforts may well continue as long as foreign capital dominates the stock market and financial centre. All these strategies and trends may well destabilize the economy by increasing the systemic risk and threaten small- and medium-sized enterprises and agriculture in Korea (Ji 2011: 390-405, 408-410).

#### (4) Crisis and Crisis Management

Neoliberal capitalism has its own crisis dynamics. First, public fund injection for financial recovery and foreign exchange fix for export promotion increases sovereign debt greatly. Second, open financial markets are subordinated to international money flows, and highly volatile due to the unstable logic of financial market. Third, the dominance of financial logic tends to decline industrial investment, growth potential, and jobs. Fourth, as corporate loans decrease and household loans (including mortgage lending) increases, household debts increase massively and housing bubbles are created. Finally, unstable employment and inequalities in financial and landed asset ownership cause socio-economic disparity and the stagnation of consumption demand.

The neoliberal state actively counteracts these crisis and crisis tendencies by managing the risks associated with capital-led investment and compensating for the losses from crises. The state thus extends its fiscal expenditures to secure the profitability of capital through R&D investment (for industrial competitiveness), exchange rate control (for international price competitiveness), MRGs for public-private partnership in public services. In addition, in response to economic crises, the neoliberal state increases money supply and fiscal expenditure to boost the economy, and rescue troubled banks and financial institutions through the injection of public fund (largely paid by taxpayers).

#### (5) The Structure of the Korean Neoliberal State as a Schumpeterian Workfare Post-national Competition State and Regime and Its Specificities

The political forms of the Korean neoliberal state is characterized by (1) the dominance of economic and financial industries as well as the presidency and repressive state apparatuses such as national information service, prosecutor's office and the police; and (2) formalized, legalized, and post-democratic regime that exclude labour from political decision-making. It can also be considered as a sub-variant of Schumpeterian workfare post-national competition state or regime in respect of governmental forms

(cf. Jessop 2002). Its economic policy focuses on innovation and flexibility centred around finance and service industries along with high-tech industries. Its social policy is largely characterized by workfare benefits subordinated to growth imperative, expanded private insurances and pensions, and repressive social policing notably against labour. It also promoted privatization of national corporations, and proliferated public-private partnerships in social/public services and infrastructure, which transferred governmental powers and business opportunities to the private sector in the name of governance. Finally, its spatio-temporality is characterized by asymmetrically globalized 'space of flows' and financialized 'timeless time' Table 2 summarizes the structure of the Korean neoliberal state in its complexity.

**Table 2. The Structure of the Korean Neoliberal State**

Spatial Scales	Political Economic Regime
Global	<p><b>Political:</b> (Declining) US hegemony</p> <p><b>Economic:</b> Dollar-Wall Street regime and globally integrated capital markets</p>
Regional (East Asian)	<p><b>Political:</b> US vs China</p> <p><b>Economic:</b></p> <ul style="list-style-type: none"> <li>- The rise of China and decline of Japan</li> <li>- Increased regional interdependence and integration</li> <li>- Strengthened Korea-US-Japan strategic alliance</li> </ul>
National (Korean)	<p>Neoliberal state + Financially-oriented accumulation regime</p> <p>Neoliberal political and government:</p> <p>1) Political Form:</p> <ul style="list-style-type: none"> <li>- Representation: authoritarian statism/post-democracy: Judicialization and formalization of democracy- Articulation: The hegemony of economic and finance ministries</li> </ul> <p>2) Governmental Form:</p> <p>Economic Policy</p> <ul style="list-style-type: none"> <li>- Globalized financial and capital markets open to foreign investments</li> <li>- Financially-oriented industrial restructuring: fiscal/financial soundness and monetary profitabilities prioritized over industrial development</li> <li>- Privatization and commodification of risk management backed by the state as the lender of the last resort: fiscal deficits, interest rate cuts, exchange rate fix, tax cuts, and public fund injection to the financial sector</li> </ul>



	<p>Social and Labour Policy</p> <ul style="list-style-type: none"> <li>- Labour repression, penalization and flexibilization</li> <li>- Social safety net provision, job training and labour redeployment</li> </ul> <p>Governance</p> <ul style="list-style-type: none"> <li>- Abolition of central planning, deregulation, and capital-led investment decision and social service provision (horizontal governance including public-private partnership and new public management)</li> </ul> <p><u>Financially-oriented accumulation regime:</u></p> <ul style="list-style-type: none"> <li>1) An oligarchal nexus of neoliberal bureaucrats-chaebol-transnational capital</li> <li>2) Accumulation strategies: Finance: low debt and low investment Workforce: enhanced flexibilization (dismissal, casual/contingent work, etc.) Capital goods and production: global network and technological innovation Sales: Exports based on price competitiveness and qualities + some domestic monopolies</li> </ul> <p><u>Neoliberal Spatio-Temporal Matrix</u></p> <ul style="list-style-type: none"> <li>1) 'Timeless time': short-termistic investment, asset value growth, and discount of fictitious capital into present value</li> <li>2) 'Space of flows' or asymmetrically open space: regional financial centre strategy and FTAs aimed to fix free flows of capital and commodities in global markets</li> </ul>
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However, the Korean neoliberal state has its own historical specificities, and is distinct from other neoliberal states in their variegation.

First, due to the recent experience of the financial crisis in 1997, the Korean state is equipped with better systems of prudential regulation and foreign exchange management than originator countries of neoliberal capitalism. For example, its integrated financial supervisory organization, strict regulations on debt-to-equity ratio and BIS capital adequacy ratio and so forth increases the transparency and financial health of corporations and financial institutions. In addition, Korea has a larger foreign reserve (7th largest in the world as of 2012), operates a system for monitoring short-term debts, and other related lessons from crisis and crisis management. This in part explains why the Korean economy performed relatively well in the middle of the global financial crisis.

Second, the role of the Korean state in neoliberal transformation is greater than other neoliberal states. The Korean state pursues various state project and accumulation strategies (e.g. knowledge-based economy, East Asian financial centre, Korea-US FTA, Green Growth, etc.), and most of them are initiated not by the chaebol or transnational corporations in Korea, but by the neoliberal officials and ex-officials. Indeed, it is a path-dependent legacy of the developmental state. In other words, Korean neoliberals regard neoliberalization as a new round of catch-up industrialization. However, this does not mean that the Korean state is a developmental state. For the essence of the developmental state is not simply the state's proactive pursuit of development but the way in which the state proactively pursues development: state-led investment coordination and risk management, financial repression for industrial development, the international environment favourable to independent state policy, and so forth, which do not exist any longer in Korea.

Third, despite the increasing dominance of the financial mode of calculation, the recent expansion of financial accumulation, and the emphasis on shareholder value, the degree of financialization remains relatively low in Korea: for example, there is no investment bank or hedge fund yet (although it is now legally allowed); and there are limits to the availability of financial derivatives (e.g. no CDO or CDS). This is because financialization started relatively recently and the hegemonic chaebol remain largely industrial (due to the regulations on the separation of industry and finance) and do not focus on shareholder value (due to its peculiar structure of governance through which the chaebol family controls the whole group with a tiny fraction of shares). As a result, it seems that, instead of financialization, governmentality has been operating as a primary mechanism of exercising neoliberal power in Korea since the global financial crisis that interrupted the process of financialization. Interestingly enough, the developmental state and the neoliberal state are similar in that both manage economic and social risk only selectively for certain groups and people, i.e. dominant capital, and yet privatize social and lifetime risk for most people: hence family and company welfare prevailed in the developmental state. Now the neoliberal state commodifies such privatized social and lifetime risk by promoting life-long education and self-help, insurances, pensions, the privatization of public services, and so forth. Not surprisingly, neoliberal governmental techniques strongly attract those who are already familiar with privatized risk in a society where labour markets were flexible and social welfare benefits were little even before the onset of neoliberal reform.

Finally, the IMF-conditioned neoliberal reform and the domination of the financial sector and stock markets by foreign investors indicate that Korean neoliberal capitalism is not only globalized but also dependent on transnational financial capital to a significant degree. The IMF reform opened and liberalized the Korean capital and financial markets, and thereby incorporated them to the US-led Dollar-Wall Street Regime that functions for global financial interests in general and US interests in particular. Since 1997, the Korean economy has become a profitable destination for foreign investors, and to that extent, subordinated to the volatility of global financial capital little interested in the balanced development of the national economy.

## **V. Conclusion**

In conclusion, the Korean state form clearly shifted from the developmental to the neoliberal one. It is misleading or unproductive to associate it with developmental or post-developmental state in any sense simply from the fact that its bureaucracy actively pursues development. For development is a universal objective pursued by the modern state in general. We should thus reject the dichotomy between the state (development) and market (non-development). Of course, it has plenty of developmental legacies. For example, highly flexible labour market, violent labour repression, the critical role of construction and real estate businesses, administration-led policy making and a basically limited role of parliamentary politics are continuous rather than discontinuous characteristics from the heyday of the developmental state. However, these characteristics are not defining features of the developmental state. The

contemporary Korean state is distinct from the developmental state in its performance, apparatuses, policies, social relations, and so forth. It should thus be considered as a neoliberal state with its own historical path-dependency. However, it is not because the Korean state retreated from industrial policy and implemented institutional reforms to build ‘markets’. The Korean state is neoliberal because, in the historical and geographical context of the rise and fall of the Dollar-Wall Street regime, it enhances private property rights, promotes financialization, delegates power to private capital, formalizes democracy, judicializes politics to support and regularize capital accumulation through capital-led investment and risk management. Table 3 compares contrasts the new neoliberal state and old developmental state in Korea in key respects.

**Table 3. The Developmental State vs. Neoliberal State in Korea**

	Developmental State (1961-1987)	Neoliberal State (1997- present)
Global Political Economy	Bretton Woods system Bipolar Cold War	Dollar-Wall Street regime Unipolar US hegemony (before 2008)
National Political Economy	Authoritarian military developmental dictatorship	Post-democratic authoritarian statism - Formalization of democracy - Judicialization of politics
State-Society	Overdeveloped state vis-a-vis civil society and private capital - Predatory limitations on private property rights	Matured civil society and private capital - Well protected and extended private property rights
State-Business	State-led business-politics collusion	Capital-led new business-political collusion (e.g. ‘Samsung Republic’)
State-Market	State-coordinated investment and government - Statization of investment and risk management through industrial planning and state subsidies	Capital-led investment decision and governance - Privatization and commodification of investment and risk management - Privatization of social and public services
Economic Policy	State-controlled finance - Dominance of industrial logic - Corporate finance and high-debt investment	Financial liberalization - Dominance of financial logic and financial deregulation - Fall of corporate finance/debt and rise of household finance/debt
Social Policy	Limited family and company welfare	Limited social safety net and welfare
Labour Policy	Exclusion, repression, wage control, and flexibilization	Exclusion, repression, wage control, and flexibilization
Spatiality	Asymmetric closure: - Infant industry protection + export promotion	Asymmetric openness: - Capital market opening - Financial centre, FTA strategies
Temporality	‘Compressed growth’	‘Timeless time’
Chaebol	Unchallenged family business	Family business challenged by shareholders and shareholder value management
Household	Deposits Savings	Private insurance/pension/fund Debt

Employment/Wage	Constant wage rise due to the shortage of workforce	Wage stagnation due to the shortage of jobs
Growth/Performance	Rapid growth	Slow growth

The Korean developmental state was characterized by the superiority of the political or cadre class over the capitalist class; state-led investment coordination, risk management, and accumulation; industrial development for catch-up industrialization even at the expense of financial profitability; and the national policy autonomy. In contrast, the Korean neoliberal state is now characterized by the superiority of the capitalist class over the rest of society; capital-led investment coordination, risk management, and accumulation; the dominance of financially-oriented calculation; and the internationalization of the policy regime. Thus it involves typical forms and characteristics of the neoliberal state that support and maintain: (1) post-democracy (the judicialization of politics; the formalization of democracy; and the hegemony of financial ministries and neoliberal bureaucrats); (2) financialization and industrial competitiveness (a primary focus on financial recovery and financial innovation, i.e. financial commodification of economic investment and risk management; infrastructural supports to technological R&D, national competitiveness, and export price); (3) labour market flexibilization (workfare policy; flexible labour market policy; labour repression and penalization); (4) financial and capital market liberalization and globalization; and (5) neoliberal governance (horizontal governance and public-private partnership as the de facto privatization of social and public services and the use of public finance for private business purposes; and the resultant socio-economic polarization, economic instabilities, and asset bubbles.

## Notes

1. This does not imply that the given state form is exactly as it is intended by the classes or forces in charge of the state or the dominant classes outside the class. Rather, as a result of strategic-relational struggle and balance of forces, it is often the case that the actual institutional forms of the state deviate significantly from what they intend and pursue.
2. In the US, real interest rates remained 1 or 2 percent in the 1950-60s or even recorded negative in much of the 1970s. However, they jumped to nearly 4 percent in 1979 and higher in the 1980s (Campbell 2005: 194).
3. The neoliberal state attempts to cover the fiscal deficits made from tax cuts and de facto subsidies to the financial and export sectors through the privatization of public corporations and the increase of indirect tax such as value-added tax as well as budgetary cuts in other areas.
4. Since it continues to increase fiscal expenditure to provide de facto subsidies to capital, the

neoliberal fiscal policy can be described as a kind of privatized or 'financial Keynesianism'. 5. For example, it is often much easier to depreciate the value of national currency than to innovate the process of production if one is to reduce cost by 10 percent. Thus even in the neoliberal international order, exchange rates are critically controlled or determined by states. However, there is no fixed direction in exchange rate policy as in the case of interest rates. The exportist countries such as Germany and South Korea tend to maintain higher exchange rates for international price competitiveness (the introduction of the Euro has been de facto currency devaluation for Germany, which gave him an advantage in pricing against other European countries). On the contrary, lower exchange rates would be more advantageous in attracting foreign capital as in the case of the US dollar appreciation in the 1995 Reverse Plaza Accord.

6. Macquarie Korea Infrastructure Fund (MKIF) is a notorious example here. Established in 2002, it has contracted with many local governments to provide various infrastructures, but deliberately made losses in its operation (mainly by borrowing from its shareholders at higher interest rates) to benefit from MRGs, and appropriate taxpayer's money greatly. For it had financially devastating effects on local government finance, MRGs have been prohibited since October 2009 (Oh 2010: 181).

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**A Developmental Bargaining?  
Finance and Welfare Conflicts in South Korea**

*Kim, Dokyun*

# A Developmental Bargaining?

## Finance and Welfare Conflicts in South Korea

*Dokyun Kim*

### Introduction

Finance occupies the special position in accounting for the rapid economic growth in South Korea (Haggard and Lee 1993: 3-5). In general sense the industrialization requires a stable, efficient, and well-organized financial system to channel available financial resources to industrial sectors, but the absence of abundant capital in late comers gives special priority over the role of finance to mobilize and allocate scarce capital into strategically important sectors (Gerschenkron 1962; Zysman 1983). Thus, Chalmers Johnson(1987: 147-149), the pioneer of the developmental state studies, says that the state control of finance was the most important aspect of the developmental state”. Woo (1999: 10) even goes so far as to say that finance was the ‘nerves of the developmental state’. No doubt that South Korea is the most representative case of the developmental state (Woo 1991: 11), which successfully carried forward the compressed industrialization with state-controlled credit-based financial system.

Very little attention, however, was paid to the impacts of finance on welfare conflicts in South Korea. Given that most of political economy studies focus on the role of finance in terms of industrial policy (Zysman 1983; Woo 1991; Haggard and Lee 1993), it may seem to be absurd to raise the question of what impacts the financial system had on welfare conflicts in South Korea. But it should be kept in mind that the state-controlled financial system, often involved with the compulsory saving scheme, is pinpointed as an institutional basis of welfare system in other East Asian countries. A good example is the Central Provident Fund (CPF) in Singapore, which is the world-famous compulsory saving scheme, putting together two functions of finance and welfare (Sherraden et al. 1995).<sup>1</sup> Another example is the Japan’s Postal Saving system and the Fiscal Investment and Loan Program (FILP), which was ever dubbed ‘welfare finance’ (hukushi kinyu) in order to emphasize welfare functions undertaken by these financial/fiscal institutions (Shibagaki 1985).<sup>2</sup> These examples show how important finance and saving system were in building up welfare systems in East Asian countries.

These examples show how important finance and saving system were in building up welfare

systems in East Asian countries.

Then why not South Korea? South Korea has every reason to draw attention to the relationship between welfare and finance. South Korea is one of the most extreme cases that the government strived to bolster household savings to mobilize financial resources, to siphon off private saving money into the state-owned banking system, and in the process to spotlight the welfare function of household saving (Johnson 1987: 148; Woo 1991; Stiglitz and Uy 1996; Vittas and Cho 1996; Kim, S-C. 1991; Seo, I-J. 2006). However, most of comparative welfare studies have disregarded the interactions of financial system and welfare system in Korea.

The conventional wisdom is as follows; while Singapore, Hong Kong, and China are involved in the 'mandatory individual saving group' or the 'developmental-particularist group', Korea, along with Japan and Taiwan, is involved in the 'inclusive social insurance group' or 'developmental-universalist group', in which finance rarely plays a welfare role (Peng and Wong 2010; Holliday 2000; Kwon 2005; Ramesh 1995). It is often said that while the individualistic mandatory saving scheme remained unchanged in Singapore and Hong Kong because of the absence of democracy (Peng and Wong 2010: 662-3; Kwon, H-J. 2005: 12), the exclusionary, non-universal, and stratified social insurance system changed into inclusive and universal one in Korea and Taiwan since the democratization mainly due to the increasing necessity of winning electoral support under the new rule of electoral competition (Peng 2004: 392; Peng and Wong 2010: 662). Thus, it seems natural that East Asian comparative welfare studies have disregarded the importance of finance and saving in Korean welfare system while being devoted to explaining the region-internal welfare differences through the democracy variable.

This paper aims to challenge this conventional wisdom by examining what impacts the state's finance control and savings mobilization policy had on welfare conflicts in Korea. The reason is as follows; first, pseudo-voluntary savings policy in Korea, firmly encouraged by the authoritarian governments, could have similar welfare effects with other countries' compulsory saving schemes, so that it is very natural to ask to what extent finance and savings affected welfare conflicts during the industrialization era. Second, there is no reason to suppose that the democratic electoral competition always brings about generous, universal, and inclusive social policy regime, as is already turned out in the debates around T. H. Marshall (1965)'s evolutionary explanation for the citizenship. Rather it seems to be more suggestive to ask what path-dependent effects the state's finance control and savings mobilization policies had on welfare conflicts since the democratic deepening.

It should be noted that I do not deny social policy differences among East Asian



countries, but only underline that welfare conflicts are not limited only in the field of social policy. In fact, until recently recent times in Korea, both household savings rate and life insurance purchase rate hovered around a world-class level while the level of public welfare expenditure and total tax burden crawled on the bottom among OECD countries (Cho, Y-H. 2009 ; Chung, M-K 2009). And, in the absence of public welfare, the majority of Korean people were compelled to save their income so as to prepare for marriage, home purchasing, children's education, aging and retirement, illness or accidents, and so forth (Kim, D-K. 2012). In other words, household savings de facto played a key role of livelihood measure instead of de jure public welfare in Korea. However, East Asian comparative welfare studies so far never touched on; why Korean people were heavily indulged in household savings; why the government bolstered them; what impacts the state's finance control and savings mobilization strategy had on both social policy and tax policy; last but not least, what effects the savings-oriented institutional setting and its path dependency had on welfare conflicts after the democratic transition.

This paper deals with the questions by bringing the concept 'developmental bargaining' into welfare framework, which is an attempt to apply Tilly (1985; 1990; 1999)'s bargaining model into East Asian welfare studies. This attempt would more clearly reveal how the specific route of state-making (i.e. the developmental state) and capital mobilization (i.e. the savings mobilization) affected the collective action or the welfare conflicts, and thus the developmental feature of state-citizen relationship in Korea.

### **Bringing the bargaining model into the welfare framework**

This paper brings Tilly's bargaining model into the framework of welfare capitalism in order to examine why the capital mobilization strategy based on the state's financial control and savings encouragement is important for Korean welfare studies, and to examine how and why it formed the developmental relationship between the state and grassroots citizens before and after the democratization in Korea. I would do so by revising Tilly's bargaining model with referring to the developmental state studies.

In the 1960s the political development theory (or the modernization theory) had postulated any 'standard track' that Third World states would walk down (Tilly 1990: 192)—the same route as Western states did finally reach into the stage of the welfare state. However, as none of any assumed political sequences even approximately corresponded to Third World states' actual political development, it unleashed debates about what is the key factor to account for Third World's differences and whether even Western experience was properly comprehended (Evans and Stephens 1988; Tilly 1990: 192).

Corresponding to the stalemate of the political development theory, Tilly says if the various paths in the European state-making process can be identified, it would be also facilitated to make clear both what is distinctive and what is common about Third World state-making process (Tilly 1990: 16). He challengingly throws a question of where the rights come from,

and suggests the bargaining model as an alternative explanation (Tilly 1999); first, in Western Europe power holder's war-making, subsequent extraction, and control of resources from subject population triggered white-hot resistance from all concerned population; second, the necessity of gaining consent from populations made power holders willy-nilly concede, bargain with them; third, this bargaining enlarged the obligations of states to their citizens and the range of the ruled who obtained the rights finally to workers, petit bourgeois, peasants, shop keepers, and so on (Tilly 1985: 169-183; Tilly 1990: 96-126; Tilly 1999: 57-68).

According to Tilly, however, Third World state-making processes were decisively different with those of European states in that they did not experience such an international military competition as Western countries did in the 16th and 17th century (Tilly 1985: 169-70; Tilly 1990: 194-195); they could acquire their military organizations/aids from outside states; they could avoid extractive activities such as tax increase which were often caused by the war-making and the military competition; and thus they could bypass political resistance and subsequent bargaining process (Tilly 1985: 186; Tilly 1990: 207-218). Therefore, Tilly comes to conclusion that military governments in Third World were paradoxically able to be sustained by the very foreign military aid, and thus, along with the revocation of the foreign aid, "the creation of regular system of taxation, equitably administered and responsive to the citizenry, would probably speed the process" of democratization in Third World (Tilly 1990: 223).

Tilly's argument must be a superb explanation about different state-making processes between yesterday's Europe and today's Third World (Tilly 1985: 170). At a glance, it looks like a non-sense that the warfare state just as an organized violence ultimately changed into the welfare state that grants goods, services, and protections to its subject people. But it is very reasonable to argue that war-making, extraction, resistance, and bargaining went hand in hand in European history, and if the state had not needed to extract resources and had been able to bypass bargaining with subject populations, citizenship rights would not have existed at all; that is, no bargaining, no rights. And indeed, it gives some significant insights to deal with the question of "what is heterogeneous about Third World states" (Tilly 1990: 195).

However, here I would like to point out some weaknesses of the Tilly's bargaining model in accounting for Third World's heterogeneity. One thing is that Tilly's explanation disregarded the new role imposed on Third World states in the postwar era: the state-led industrialization (Lim, H-C. 1985: 73-77; Johnson 1987). His militarist approach overemphasizes the context of interstate military competition so that it leads to a hasty decision that, along with the dominant states' military aid, the disappearance of military competition made possible Third World states sidestep repressive, coercive, extractive activities (Tilly 1990). But the uniqueness in the postwar Third World was that the governments, not the business sector, had to plan, fundraise, and accomplish the industrialization for their own countries, and yet, they were pressed to all-out

mobilization of all available resources into the industrialization because of the scarcity of capital (Woo 1991). In other words, Third World governments had to extract and mobilize resources not because of war-making but because of industrialization.

Another weakness is that Tilly ignored the importance of the state's financial control and savings mobilization as a means of mobilization in Third World. Tilly puts an emphasis on the role of foreign aid and loan in Third World, which might be expected to reinforce the coercion-intensive route in his coercion-capital framework. The argument is not wrong, but as developmental state studies note, it overlooks that East Asian countries could control the financial system as a whole and thus could almost forcibly mobilize, allocate private saving money into industrial sectors as if it were public money.

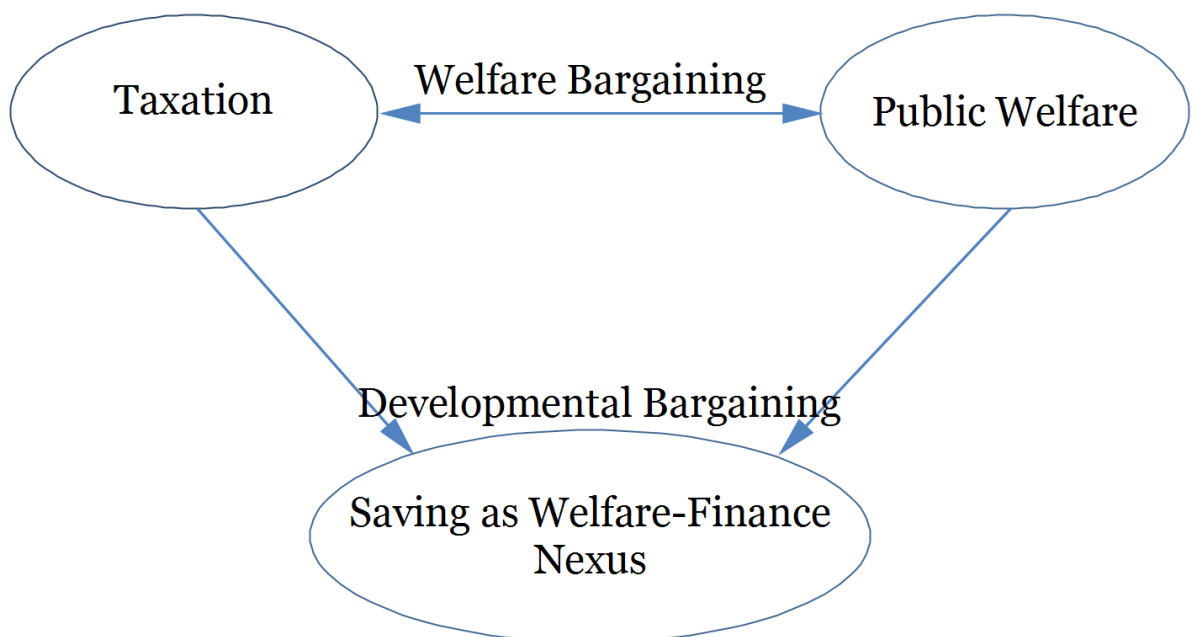
From the perspective of Tilly's bargaining model, the mobilization of domestic private saving for the public use could have crucial impacts on the defining feature of the state-citizen relationship. As the state's taxing activity infringes upon citizens' property right, it tends to trigger intense political conflicts between the state and society, which eventually tend to result in welfare bargaining (Martin, Mehrotra, and Prasad, 2009; Tilly 2007). But in the case of finance control, the governments could avert political conflicts because they could mobilize private saving money instead of taxation; finance control at most only levies indirect taxes through the repression of interest rates. Moreover, while households are evangelically encouraged to save as much as they can, and to spend as less as they can, they get various incentives for savings, which could be a sort of asset-building measure to improve citizens' material affluence (Garon 2002). Thus, the substitution of taxation with savings mobilization could have decisive effects on the bargaining relationship between the state and society.

This paper calls the bargaining based on the savings mobilization the 'developmental bargaining'. Nowhere is that shown clearer than in the Korean industrialization case. The social policy in Korea has strong disposition of being formally introduced from above to both internationally and domestically redeem the absence of political legitimation (Kwon, H-J. 1999). That is, the introduction of social policy did neither reflect upon social demands, nor was embedded in the 'historical process of political evolution or democratic deepening' (Chang, K-S. 2012: 183). On the contrary, in real political process, "the state [has been] expected to concentrate on economic development so that its citizens can benefit as private economic players in the market system", which is dubbed 'developmental citizenship' (Chang, K-S. 2012: 183). Chang properly notes that in East Asian developmentalist regime the "practically observable rights and duties of citizens in regards to their state have predominantly revolved around national economic development and individualized material livelihood" (Chang, K-S. 2012: 183). However, even these developmental studies failed to make clear the institutional mechanism of this state-citizen relationship by ignoring savings mobilization and its impacts on tax policy.

To examine the institutional mechanism of developmental bargaining, I stress out three

policy areas: financial policy, tax policy, and social policy. Picture 1 shows relevance and difference between the welfare bargaining and the developmental bargaining, and the relationship between financial policy, tax policy, and social policy. In advance, the taxation-welfare relationship, or welfare bargaining, reflects upon the Tilly's argument that the emergence of the welfare state in Western Europe is by-product of the interaction of state's extractive activities (i.e. taxation) and population's resistance against them.<sup>3</sup> Second, the 'saving as a welfare-finance nexus', or developmental bargaining, indicates that household savings at once do double duty of finance and welfare under the state-controlled financial system. The CPF in Singapore is a role model, but it can be applied to every case that the government can substitute its taxing activity with the mobilization of domestic private saving.

**Picture 1 Institutional mechanism of developmental bargaining**



Finance takes a pivotal position of channeling the flow of national resources so that “monetary and financial policy remain the most zealously guarded realms of any state, combined with centralized control of the military” (Woo 1991: 2; Zysman 1983: 16-7). Adding to that, this paper emphasizes that finance has crucial impacts even on the state-citizen relationship, or the defining feature of bargaining. To date, both the Hintzean-Weberian and the Marxist tradition, including Tillian approach, have seen only tax policy as the nexus between the state and society (Woo 1991: 2-3). Joseph Schumpeter (1991[1918]) goes so far as to say that the public finance is one of the best starting points for an investigation of society. However, of more interesting is that even the ‘political economy of finance’ approach (Zysman 1983; Woo 1991; Haggard, Lee, and Maxfield 1993) did not pay any attention to the role of finance in terms of the state-citizen relationship.<sup>4</sup> It shows how completely the existing researches have ignored the impacts of finance on the state-citizen relationship.

On the other hand, the combination of the Tilly's bargaining model and the developmental state studies could give useful insights for understanding how the state's finance control and savings mobilization strategy have influenced on the welfare conflicts in Korea. This paper examines, in advance, what impacts the state's finance control had on the formation of fiscal institutions and the welfare conflicts during the industrial era in Korea, and then to what extent it had path-dependent effects on welfare conflicts since the democratization.

## A beginning of the developmental bargaining during the industrial era

### *Foreign aid/ loan, taxation, and savings mobilization*

Given that investment is a function of saving, a key factor of economic development is to gain accumulated capital. There exist various forms of accumulated capital; it can be classified into either foreign saving and domestic saving, or public saving and private saving. And, as can be seen in table 1, by making a two-by-two matrix with these two variables, we can distinguish at least four types of financial resources: foreign aid/ loan, foreign commercial loan, taxation, and domestic private saving.

**Table 1 Four types of financial resources**

	Public	Private
Domestic	Tax/non-tax revenue	Private saving
Foreign	Foreign aid/public loan	Commercial loan

Various means of financing, however, have merits and demerits respectively. For instance, the borrowing of foreign savings such as foreign aids and loans could be very useful means to overcome capital scarcity problem in a very short period of time, but it could be very risky in that it might increase the burden of the repayment of the principal and interest with the disadvantageous interest rate applied to underdevelopment countries. There exist also the risks of economic dependence in case of a huge amount of foreign indebtedness (Lim 1985). Second, taxation is the most representative form of the government revenue, but by nature it almost always tends to cause political tensions between the state and society when lacking of efficient and fair tax system (Martin, Mehrotra, and Prasad 2009). Lastly, domestic private saving does not have risks of either economic dependence or political conflicts, but it is very uncertain, unreliable, and volatile means of financing because the increase of saving rate completely depends on person's voluntary saving efforts. Thus, the mobilization of domestic private saving could be more difficult in economically backward countries in lack of accumulated capital (Musgrave 1965: 5).

The main financial resources for the industrialization in Korea gradually moved from foreign to domestic saving and from public to private saving during the period. In advance, the Korean government was able to depend on a considerable amount of foreign aids and loans in the



geopolitical conditions of the Cold War. The initial difficulty of the industrialization in Korea was to mobilize capital in the situation of an acute shortage of capital. By taking advantage of its strategic position of a garrison state against communism, however, the Korean government could gain more foreign aids and loans than other countries could (Lim, H-C. 1985: 77-88). For instance, between 1946 and 1978, “South Korea has received some \$ 13 billion in American military and economic aid, and Taiwan some \$ 5.6 billion”, as compared with “a total for all of Africa of \$6.89 billion and for all of Latin America of \$14.8 billion” (Cumings 1984: 24). This large amount of the foreign aid confirms how crucial the foreign saving was to kick off the industrialization in Korea.<sup>5</sup>

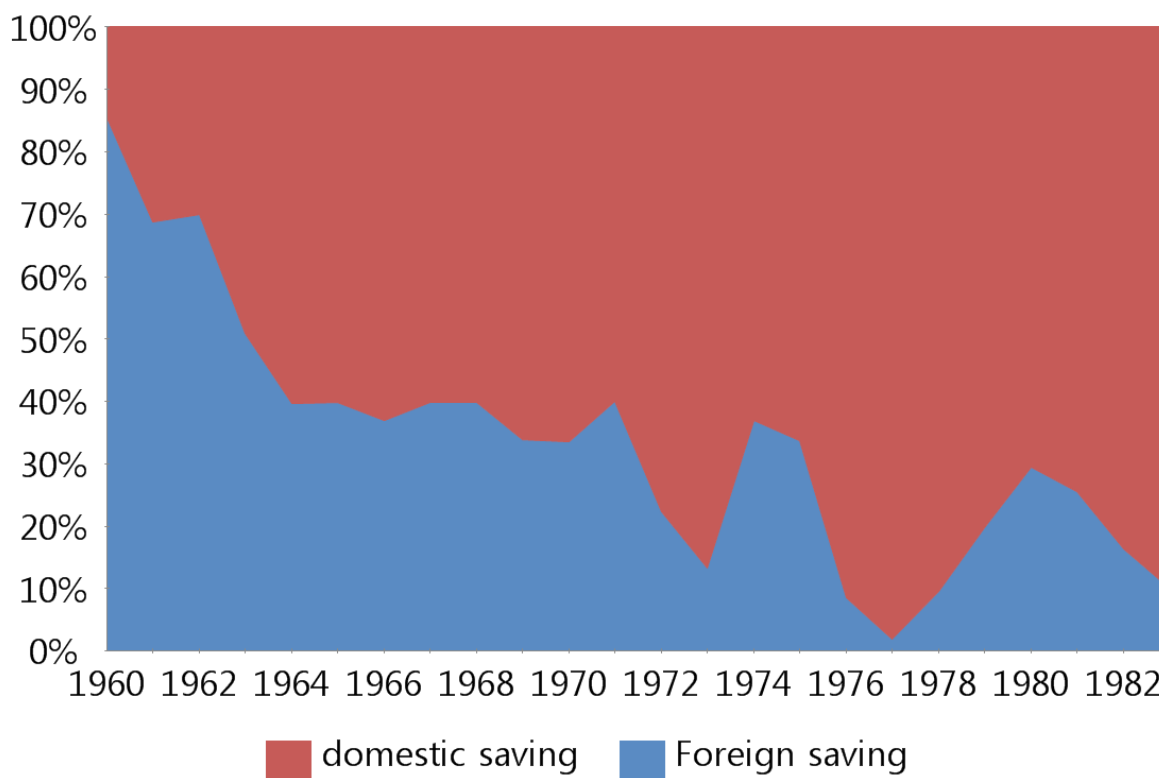
However, the negative effects of foreign loan began to come out from the late 1960s. The amount of foreign loan increased “tenfold from \$210 million in 1965 to \$ 2,250 million in 1970”(Choi, B-S. 1993: 29), which triggered the economic boom, but at the same time the burden of foreign loan repayment also began to rise rapidly from around 1969(Choi, B-S. 1993: 29). Large firms dependent on foreign loans, especially influx of short-term capital from Japan (Park, T-K. 2007), began to run into severe financial difficulties, and be finally pushed to the brink of bankruptcy. Furthermore, the export-oriented industrialization based on foreign saving increasingly worsened the trade balance. Trade deficit grew from \$ 355 million in 1962 to more than \$4.5 billion in 1979, and its increase prompted the vicious circle that a substantial amount of foreign aid and loans should be again used to offset trade deficit (Lim, H-C. 1985: 95).

The late 1960s’s economic stagnation and the trade deficit problem provoked the criticism about the economic growth strategy dependent on foreign loan (Lim, H-C. and Song, H-G. 1994: 177-8; Park, T-K. 2007), and thus from the 1970s policy debates were filled up with the emphases on domestic capital mobilization. As a typical example, with respect to the heavy industrialization, the Economic Planning Board (EPB, 1973)’s report of ‘The long-term perspective of our economy, 1973-1981’ stresses that the role of domestic capital mobilization is crucial to accomplish the target of ‘the annual economic growth rate 10%, the export 10 billion dollar, and per GNI 1000 dollar’.

Picture 2 shows the change of the foreign-domestic saving ratio in the gross domestic investment over time. It goes without saying that Korean economy heavily rested upon foreign loan throughout the 1960-70s. In the early 1980s, Korea came at the 4th in the amount of foreign indebtedness, following those of Brazil, Mexico, and Argentina (Lim, H-C. 1987: 408). But it should be noted that in the level of not stock but flow the ratio of foreign saving continued to decrease with severe volatility in the 1970s. The picture demonstrates that the ratio of foreign saving was kept very low except the period of the 1st and 2nd oil shock, when the mobilization of domestic saving would be almost impossible due to the economic crises. It means that, as presented in the EPB report, from the 1970s at least the policy intention of the government became oriented into the mobilization of domestic saving rather than foreign saving even if it had not been feasible in case of economic crisis.<sup>6</sup>



**Picture 2 Change of the foreign-domestic saving ratio in the gross domestic investment**



Source: The Economic statistical yearbook (The Bank of Korea)

Notes: The 'foreign saving' is the ratio of the foreign saving divided by the gross domestic investment and the 'domestic saving' is the ratio of the domestic saving, which is the total of government, business, and household saving, divided by the gross domestic investment

With respect to the way of domestic capital mobilization, private saving becomes preferred to public saving from the 1970s. By the middle of 1960s, after the First Five Year Plan turned out to be failed (Kim, J-R. 2011), R.A. Musgrave visited Korea as a fiscal consultant of the 'Nathan Economic Advisory Group', and advised the Korean government that it takes time to mobilize private savings because the rise in the private savings rate cannot be legislated and savings habits and institutions must be developed (Musgrave 1965: 5).<sup>7</sup> Instead, he stresses that; public finance needs to have a role of mobilizing saving by restricting consumption (i.e. government saving); public saving must carry the major weight during the earlier phases of the plan, with private savings assuming a greater share later on (Musgrave 1965: 1-5).

Following his advice, the government realigns the tax system by establishing the National Tax Service in 1965 and by pushing ahead tax reform in 1966 (Lee, J-S. 1990). As a result, in the late 1960s, the level of total tax burden comes to skyrocket. The amount of the internal revenue increases five times for only four year from 42.3 billion won in 1965 to 218.9 billion won in 1969 while the its ratio in the GNP doubled from 5.1% in 1965 to 10.5% in 1971 (Kim, J-R. 2011; Lee, J-S. 1991: 177). Thus, the late 1960s sees that public finance and taxation unprecedentedly played a significant role in the Korean fiscal history.

However, the rapid increase of tax burden with strengthening of the tax administration

in the late 1960s comes to face with strong tax conflicts (Lee, J-S. 1990: 25; National Tax Service 1971: 250). The then tax administration had the intention of raising taxes for the “Second Five Plan”, so that a target tax figure was set up by the National Tax Service and a tax quota was respectively allocated into the affiliated local tax offices. But even worse, back then, owing to the absence of bookkeeping system in many small and medium-sized businesses, the method of estimated taxation, instead of documentary taxation, was bound to be chosen. Needless to say, the estimated taxation in combination with setting up of target figure aggravated the customary practices of the tax officers’ discretionary taxation, and no doubt it brought on intense tax conflicts (Kim, Y-H. 2002; Lee, W-T. 1997; Yoon, K-Y. 1997; See the picture 4, p.20).

In response to the increase of tax conflicts, the government began to emphasize that domestic private saving must take an important part in the heavy industrialization. The EPB report insists that the household savings rates must more than double from 4.6% to 10.6% between 1973 and 1981, taking into account that capital mobilization in the 1960s mainly rested on the government saving (i.e. taxation) and the foreign saving (i.e. foreign loan) as compared with Japan’s and Taiwan’s strong dependence on household saving (EPB 1973: 17). In other words, in a situation that both foreign loan and taxation were at the breaking point, the increase of household savings rate became a key policy objective that held sway over the fate of the heavy industrialization and the Yushin regime.

A symbolic action that showed a close relationship between the mobilization of domestic private saving and the heavy industrialization was the introduction of the National Investment Fund (NIF) in 1973. Already right after the 1961 coup, the state elites swiftly seized the financial system and converted it into a powerful industrial policy instrument (Woo 1991). They nationalized commercial banks, subordinated the Bank of Korea to the Ministry of Finance, and set up a number of specialized state-run banks (Choi, B-S. 1993; Kim, J-R. 2011).<sup>8</sup> As a matter of course, these measures paved the way for the government’s discretionary allocation of financial resources.

However, the NIF was distinctive in the respect that it altogether absorbed private saving money into a government-controlled public fund. Indeed, the NIF was established by referring to the Fiscal Investment and Loan Program (FILP) system in Japan (Nam, D-W. 2009), in which the Ministry of Finance en bloc managed the Postal Saving fund and other public funds as a supplement of general accounting (Shibagaki 1985; Cargill and Yoshino 2003).<sup>9</sup> It was designed to encourage people to participate in the heavy industrialization by making people invest their savings in the heavy industrialization (Nam, D-W. 2009). Thus, its financial sources were raised not through taxation, but almost all through compulsory purchase of the NIF bond by financial institutions, or compulsory deposition of a portion of the banks’ saving deposit to the NIF (The Fund Management Department of the Bank of Korea 1989).

The introduction of the NIF demonstrates that the fiscal burdens, which should be charged into the government, were shouldered onto the financial sector (Park, Y-C. 1984: 354). In other words, what the state's taxing activity was partially replaced by the mobilization of domestic private saving meant that the government could reduce the possibility of tax protests. Furthermore, as government-controlled public funds like the NIF offered so much discretionary fiscal power to the authorities (Kang, S-T. 2000), they came to mushroom under the Yushin regime.<sup>10</sup> The number of government-controlled public funds was no more than 10 in the late 1960s, but it amounted to dozens only for a decade (Park, Y-C. 1984: 353), and its institutional effect was to blur the boundary of the fiscal system and the financial system.

The examination of the Korean fiscal history demonstrates that the state's finance control and the savings mobilization in Korea are rivaled with the CPF in Singapore. There are of course institutional differences between two countries. In advance, whereas the foreign direct investment and multinationals played a significant role in Singapore, the indirect investment and foreign loan took a decisive role in Korea (Lim 1985). Second, while the tax system was directly replaced by the CPF in Singapore, there was no mandatory saving scheme such as the CPF in Korea. However, in a situation where foreign loan and taxation faced the economic and political limitation, the mobilization of domestic private savings emerged as an important alternative measure in Korea. The introduction of the NIF during the heavy industrialization was the symbolic event to show that the fiscal burden was shouldered by the financial sector. Thus, we can conclude that not in institutional level but in the level of capital mobilization strategy two countries shared substantial similarities. Then let us examine in more detail how tax policy and savings encouragement policy interactively went into making a developmental bargaining under the state-controlled financial system.

#### *The introduction of the income tax exemption system by the Emergency Decree*

As a matter of fact, there are little possibilities of the income loss caused by the unemployment in a very rapidly growing economy. However, a serious inflation accompanied by rapid economic growth, especially when combined with a low-wage policy, could threaten the security of real income. In practice, Korean economy came to experience a sharp increase in prices due to the Oil Shock in 1973—the price level went up over 40% in 1974 alone (Kang, J-M. 2002), and in a situation where a low-wage policy was consistently held for the export-oriented industrialization, this drastic inflation led to the decrease of the real income.

Corresponding to this economic crisis, the Yushin government took tremendous income tax cut measure in 1974 through the Third Emergency Decree. The Decree stipulated that the employees earning below the monthly income of 50,000 won should be totally exempted from the individual income tax by various measures such as deduction, exemption, or credit (Kim, Y-H. 2006; Lee, J-S. 1990: 61-82). Taking into account that the income tax exemption point per household<sup>11</sup> heretofore stayed at the monthly income of 18,000 won, the rise of the income tax exemption point to 50,000 won was so enormous that it even surpassed the then average household expenditure level. As a result of this huge tax exemption, about

85% of the earned income tax payers were exempted from income tax payment (The Monthly Chosun 2012).<sup>12</sup>

The Decree was proclaimed primarily because of the decrease of real income driven by the Oil Shock, but there were also other political reasons. In advance, it was closely related with the anti-Yushin movement. Back then the ‘Constitutional Amendment Petition Movement’ had spread out with threatening the political legitimation of the Yushin regime (Kang, J-M. 2002: 121-5). Second, to make matters worse, the North Korea was irritating the South Korea by abolishing direct tax system altogether and propagating it (Kim, D-K. 2013: 98). Thus, facing legitimation crisis and regime crisis as well as economic crisis, the Yushin government was forced to do something, and the very something was the drastic income tax exemption.

This tremendous tax cut was unprecedented, anomalous, improvised, but nevertheless it was as decisive as it hereafter would circumscribe the boundary of tax debates. In advance, the amount of tax exemption became the meat-and-potatoes concerns of the employees in a situation where social policy played little or no role of income security. With this as a momentum, the opposition party also began to take advantage of the tax exemption policy as a sort of alternative income security measure. The government and the ruling party became in such a dilemma as they were bound to keep increasing the tax exemption level in view of inflation even for the preservation of the status quo (Kim, D-K. 2013: 98-99). Therefore, it was very natural that the battle around the amount of tax exemption became the annual event between the ruling party and the opposition party.

Along with that, special attention should be paid to the relationship between tax exemption policy and social policy. In fact, one of the most important reasons that opposition lawmakers could consistently demand to increase the tax exemption level was that there were no practical income security system in Korea. In the financial committee, opposition lawmakers stress out as follows;

“under the situation that social security system does not operate at all, and that its practical operation is also unpromising, at least the deduction for medical expenses should be introduced” (1974, the 90th financial committee records of national assembly no.12, pp.20-22)

“countries that levy heavy taxes are completely equipped with social security system, but our social security system is too terrible... under these circumstances, every individuals should be responsible for illnesses and education for themselves. In these situations, to argue that [the monthly tax exemption point of] 100,000 won is too abundant... that does not stand to reason

at all” (1975, the 94th financial committee records of national assembly no.8, pp.84-85).

These arguments substantiate that, in lack of social security system, the income tax policy was put in a situation where it should function as a sort of income security measure.

On the contrary, however, it also meant that, in accordance with the annual increase of the income tax exemption, the level of social expenditure was also bound to be kept low. Basically there were almost nothing for raising welfare funds because the size of tax revenue itself was small and, if anything was taxed, most of them had to be allocated into economic development and national defense (Kwack, T-W. 1991). Thus, even if social policy was introduced with the intention of gaining political legitimation, it was forced to stay at no more than political gesture. In other words, a vicious circle was spontaneously formed that the lack of substantial social security system caused the development of the income tax exemption system and vice versa.<sup>13</sup>

In a nutshell, with respect to tax policy during the heavy industrialization period, one interesting point is that the income tax exemption system came to unintentionally take responsibility to buttress the minimum income level, which shows that the state-citizen relationship (or bargaining) in Korea began to enter into a different route with those in Western Europe. Whereas the increase of tax burden rate went side by side with the increase of social expenditure level in Western Europe, the increase of tax exemption level was consistently paralleled with the obstruction of welfare state growth in Korea. Moreover, the extensive income tax exemption also had the effect of institutionally supporting individualized material livelihood by reducing people’s tax burden as much as possible. In this vein, it can be said that the tax policy in Korea came to operate as an institutional basis to support the developmental bargaining.

### *“Saving is National Power”*

Whereas the mobilization of domestic private saving was generally regarded as more advantageous than taxation or foreign loan in terms of economic and political cost, it had some weaknesses as well. The prerequisite of savings mobilization was that in advance person’s savings habits and savings institutions must be developed (Musgrave 1965: 5). Generally the household saving has the characteristics that the deposit is not mandatory, the size is small, and the participant is various. Thus, without financial incentive, thoughtful policy concern, or educative discourses about desirable household behaviors, it is hard to expect that household saving would take a significant role as capital mobilization measure (The Bank of Korea 1978).

Korea was no exception. Thus, in order for successful savings mobilization, right after the military coup in 1961, the military government launched the ‘austerity saving movement’ as a part of the ‘National Reconstruction Movement’ (Savings Department of the Bank

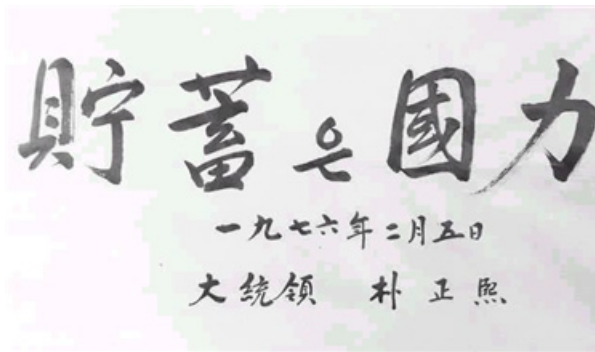


of Korea 1969), with which it strives to enlighten the household wife to make a living with rational, scientific life style (Hwang, J-M. 2001). With the slogan of ‘becoming housewife for accomplishing planned economy’, it encouraged housewives to keep household account for austerity, rational consumption, thrifty, and saving. Thus, in a sense, the savings encouragement movement was the key tool to mobilize women in the state-led industrialization and to strengthen the modernized gender division (Kim, H-J. 2008; Seo, Y-J. 2008; Kim, D-K. 2012: 183). Besides of that, even such a measure was taken to offer tax incentives to high-income earners by permitting banking secrecy and anonymous banking transaction (Kim, Y-H. 2006).

In 1965, the authoritarian government took the Interest Rate Reform by doubling the annual time deposit rate from 14 to 30 percent. Despite of the multifaceted savings encouragement, household savings rate was kept very low until the early 1960s because of the negative real interest rate (Cole and Park 1983: 200-3). Thus, accepting the USAID’s suggestion, the government took measure to actualize the interest rate as a part of savings encouragement policy (Kim, Y-H. 2006; Subcommittee on International Organizations 1978). Along with that, the ‘Savings Drive Central Committee’ and the ‘Women’s Savings Life Central Association’ were established so that the national saving movement was systematized (The Bank of Korea 1972). As a result of these savings encouragement policies, total bank deposits increased a nearly sevenfold over the four years from 1965 to 1969 (Choi, B-S. 1993: 28), and in combination with the state’s seizure of the financial system, it allows the government to mobilize private saving as an important industrial policy instrument.

From the 1970s, more intensive savings campaign was launched. With the kick-off of the heavy industrialization, the role of domestic capital mobilization, especially those of household saving, became important. The spirit of the Yushin was regarded as equivalent with the economic growth, which was also regarded as equivalent with savings mobilization. However, despite of the emphasis on savings, in the aftermath of both the ‘Curb Market Moratorium Action’ in 1972 and the Oil Shock in 1973, the national savings rate rather went down from 22.1% in 1973 to 18.0% in 1975 (Kim 2013: 105). Thus, it was imperative that savings campaigns were intensified. As a part of the ‘Saemaoul Movement’, organized saving campaigns such as children’s saving movement, local community’s saving movement, factory’s saving movement, etc., were proliferated across the country (The Bank of Korea 1975). In 1976, the President Park Jeong Hee proclaimed the ‘All-Out Savings Year’ and asserted emphatically “Saving is National Power”, as can be assured in picture 3.

**Picture 3 “Saving is National Power”: The work of President ‘Park Jeong Hee’ to declare the ‘all-out savings year’ (1976)**



Source: Maeil-Kyungje, February 12 1976.

But the most interesting thing in the Korean saving campaign history was that the ‘employee’s asset-building savings plan’ (Gesetz zur Förderung der Vermögensbildung der Arbeitnehmer) was introduced for the sake of successful savings mobilization. As against other savings encouragement policies, the plan was very specific in the respect that it gave preference to the employee’s savings through various financial and tax incentives, and even legal savings bonus. It was the first time in the savings campaign history in Korea that the authorities had the intention of stabilizing the employee’s livelihood by encouraging household’s voluntary savings through various incentives (The Korean Institute of Applied Statistics 1976). Thus, in a sense, it shared a feature of a sort of social security even if it was not the typical social security system (The Savings Department of the Bank of Korea 1977). Along with the plan, the government also began to offer other similar financial incentives such as the interest income tax credit, the insurance premium deduction, the housing purchase tax credit, etc (The Bank of Korea 1978; Kim, D-K. 2013: 105-7).

The introduction of the ‘employee’s asset-building savings plan’ demonstrates that the authorities paradoxically began to consider an income security function of household savings for the successful capital mobilization during the heavy industrialization period (Kim, D-K. 2013: 107), and that the savings encouragement policy contingently came to take a role of connecting national economic development with individualized material livelihood. That is, in the absence of social security system, it was not public welfare but asset-building through saving that became the crucial mechanism to distribute the fruits of economic growth to people. Household saving was both for the good of the industrialization and for households’ own good in Korea.

On the contrary, the savings discourse did run counter to those of public welfare. While the savings campaign put an emphasis on life patterns such as thrifty, austerity, self-help, and self-reliance for the saving enhancement, it criticized public welfare as wasteful, unproductive, and immoral on the ground that it tends to instigate people’s dependence on the state and to obstruct people’s will to self-reliance. Therefore, even for the sake of establishing the social discipline such as self-help or self-reliance, the government’s social expenditure had to be suppressed (Kwon, G-D. 2011; Garon 1998; Garon 2000).

Summing up, the introduction of the income tax exemption system and the employee’s asset-

building savings plan was to offer the institutional bases of the developmental bargaining. Even if there was no compulsory savings scheme such as the CPF in Singapore, the income tax exemption system played a role of reducing citizen's tax burden. What's more, financial benefits given to household savings deepened households' dependence on saving by building up new life patterns like thrifty and saving. Lastly, combined with each other, these two policies were to lay the foundation that citizens could individually benefit from rapid economic growth. No doubt that this policy combination was possible only because the government could control the financial system as a whole. If it had been impossible to mobilize domestic private saving, it would have been inevitable to increase the citizens' tax burden, which probably would have unleashed political resistance, and finally would have led to welfare bargaining. However, with the condition of the state's finance control, the Korean government could go by different path; that is, the developmental bargaining. In this respect, it can be evaluated that the combination of these two institutions in Korea had similar effects with the CPF in Singapore. Then, in next section, it will be examined how these institutional legacies affected welfare conflicts since the democratization.

### **Consolidation of the developmental bargaining since the democratization**

#### *Transition through transaction and welfare conflicts*

In general, it is assumed that the condition of democratic electoral competition allows political parties to take advantage of social policy as a means to gain political supports. The modernization theory points out that the rise of democracy has positive effects on the growth of welfare state (Flora and Alber 1981). With respect to the Third World democratic transition, it is argued that the institutionalization of procedural democracy, whatever its characteristics are, tends to facilitate the growth of the welfare state (Choi and Park 2010: 140; Przeworski 1992).

On the other hand, critics for this general assumption argue that socio-economic democratization is a function of the various modes of democratic transition but not a necessary result of the transition itself (O'Donnell and Schmitter 1986). They stress out that the post-transitional partisan competition does not necessarily reflect on social cleavage or class conflicts (Choi and Park 2010: 138-141), and thus, social policy issue might not emerge as an electoral issue under the democratic deepening.

It should be noted that the mode of the democratic transition in Korea is evaluated as the 'transition through transaction' or the 'transition by elitist agreements' (Song, H-G. 1999: 108). The democratic transition in Korea was ignited from the below by social movement such as democratic movement, labor movement, Minjung movement, and so on, which was the clear difference with the Latin American cases or even with Taiwanese one (Shin, K-Y. 1999; Koo 1993: 247; Choi, J-J. 1993). However, it falls under the 'transition through transaction' in the respect that the existing authoritarian

forces were able to intervene, control, and lead the transition (Mainwaring 1992: 322). Passing through the 6.29 declaration in 1987 and the three-party merger in 1990, the democratization in Korea came to be led by the ruling classes and reduced into the range of elitist bargaining (Song, H-G. 1999: 35). Furthermore, parochial party system, stuck in since the presidential election of 1987, began to severely frustrate the efforts to politicize distributional or welfare issues (Choi and Park 2010: 138-141). Therefore, it can be said that the type of Korean democratic transition was closer to 'transition through transaction' rather than 'transition from the below'.

Then, how did political elites cope with welfare conflicts under the 'transition through transaction'? It seems to be natural that they did not strive to take advantage of social policy as a means to gain electoral votes under the political party system dominated by parochial issues. However, it does not mean that welfare conflicts were completely overwhelmed by other issues like parochial conflict. Rather, as the democratic transition in Korea was triggered by social movements from the below, it was inclined to intensify welfare conflicts, and the ruling classes were bound to seriously consider the necessity of policy responses with worrying about the ideological radicalization of distributional conflict (Yeon et al. 1990).<sup>15</sup> It proves that welfare conflicts had to be by any means resolved even under the democratization guided by the ruling classes.

However, it should be kept in mind that it was not social policy but tax policy and housing policy that helped resolving welfare conflicts since the democratization. Social policy in Korea was consistently considered only within the boundary of political legitimation (Kwon, H-J. 1999), which had the double-edged sword effect on welfare reform. The expansion of public welfare can have positive effects on political legitimation, but conversely, the increase of tax burden accompanied by it can have negative effects on gaining the electorate. Therefore, as long as the democratization was guided by political elites, welfare reforms only for gaining political legitimation could have a fair chance of resulting in a formal, nominal, residual, or market-conforming one.

On the other hand, the income tax exemption policy and the employee's asset-building savings plan, which had been introduced under the Yushin regime, were more favorable to political elites who willy-nilly had to deal with welfare conflicts. In advance, under the circumstances of intensifying distributional conflicts, the income tax exemption policy came to predominate over social policy because it at least made it possible to increase the disposable income level without extra tax burden. Second, under the condition of serious housing shortage, the employee's asset-building savings plan, which was introduced as a makeshift for savings encouragement, could be easily converted into a means to support the tenants' buying-home. Then, in next two sections, let us check out in more detail how these two policies were used to alleviate welfare conflicts since the democratization.

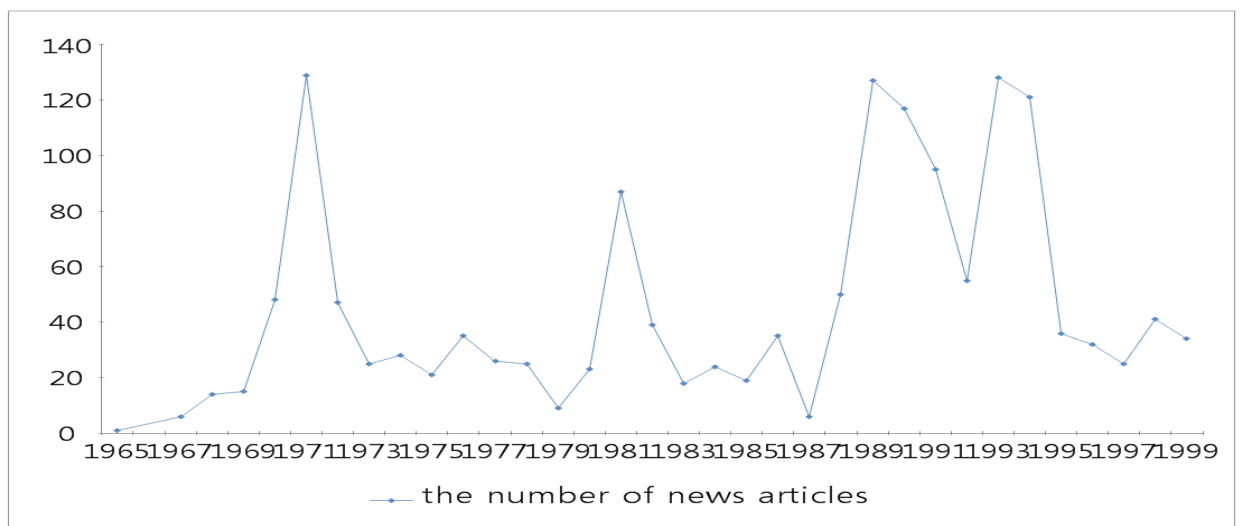
*Wage hike and the politics of fair tax*

Although the total tax burden remained smaller than other developing countries (Bahl, Kim, and Park 1986; Tait, Gratz, and Eichengreen 1979), the Korean tax system as a whole was riddled with unfairness and anomalies. For instance, as of 1985, the authorities grasped about 75% of the earned income, but only captured about 11.8%, 40.2%, and 51.0% of the rental income, interest income, and dividend income respectively (Tax System Development Council 1985: 25). Even worse, the introduction of the value-added tax in the late 1970s was severely exacerbating the unfairness of the tax system, and further the amount of social transfer expenditure was too small to revise the regressive, unfair, and capital-friendly tax system (Han, S-S. 1982; Lee, K-S. 1989; Lee, J-S. 1990).

Under this circumstance, the ‘earned income tax collection in excess’ issue extremely amplifies the fair tax issue during the democratization. The Korean economy experienced the annual economic growth rate of more than 10% with the unanticipated economic boom in the mid-1980s, and in combination with 1987 labor struggle, the wage level rapidly went up. However, under the progressive income tax structure, this wage hike instantly increased the burden of the earned income tax. In result, the amount of the paid tax for earned income highly came to exceed those of the budget estimation, and in practice it exceeded 12.2% more than budget estimation in 1986, 14.4% in 1987, 34.4% in 1988, and as much as 60% in 1989 (1989, the 147th financial committee records of national assembly no.5).

After all, this excessive tax collection issue intensifies tax protest. Picture 4 shows that the number of news articles about ‘tax protest’ periodically had fluctuated from the 1960s to 1990s.<sup>16</sup> First, as already mentioned in the previous section, the tax protest was intensified in the late 1960s because of the reinforcement of tax administration and the tax increase policy. Second, the increase of tax protest in the early 1980s was related with the introduction of the value-added tax in 1976. Lastly, the sharp increase in the late 1980s impressively shows the intensity of tax protest which was closely related with the excessive tax collection issue.

**Picture 4 Trend of the number of news articles about ‘tax protest’**





Source: Naver Newslibrary internet search (Three newspapers of Dong-A, Kyung-Hyang, and Maeil-Kyungje)

Distributional conflicts had been already sharpened under the democratic transitional conjuncture, and they became all the more aggravated by the regressive and unfair tax system. Furthermore, for the first time in the Korean constitutional history, the opposition parties became the majority in national assembly, which was very favorable condition to the opposition parties who wanted to rally a great deal of political support by taking advantage of distributional conflicts. Thus, it can be easily expected that the excessive tax collection issue finally came to be central to welfare conflicts in these conditions.

Corresponding to this tax protest, the government hastily launched the tax reform with a view to lessening the wage-earner's tax burden (Choi, K 1989: 59; Kim, Y-H. 2002: 275). The main methodology was to take advantage of various sorts of tax exemption measures just as it used to be in the 1970s: earned income deduction, basic deduction, deduction for spouse and dependents, deduction for disabled and senior, tuition tax credit, and so on. Indeed, these tax exemption measures were taken to refund taxes withheld in excess to taxpayers, and in result the income tax exemption point per household, the income level which is entitled to pay no earned income taxes, rose about 68% from 228,000 won a month to 384,000 won a month (Korea Institute of Public Finance 1997).

But it should be noted that this tax reform intended to ameliorate the unfairness of tax system by decreasing the wage-earner's tax burden, but not by increasing the high income earner's tax burden. Furthermore, of more interesting was that both opposition parties and labor unions also demanded more extensive tax relief measure rather than more public welfare benefits as a means to accomplish economic democratization. The opinions of opposition parties were well expressed through the tax debates in the financial committee.

“The more taxes paid, the more social transfer expenditure must be increased. However, despite of the extensive national consensus on public welfare, the majority of people is not receiving sufficient benefits as much as they paid. For now, people are uniformly demanding to build a harmonious country by accomplishing the economic democratization through the justice in taxation. The national consensus is that the trend of ‘the rich-get-richer and the poor-get-poorer’ must be reversed through tax policy that forces the haves pay more taxes and the haves-not pay less taxes. The refund issue also comes out in this context... there is an argument that taxes withheld in excess should be used for public welfare, but it is a matter of preference. In other words, it is controversial which one is better—to refund taxes so that people could get more disposable income into their pockets and spend more money for their own good, or not to refund them so that the government could finance more public welfare

and increase the amount of social expenditure.” (1989, the 147th financial committee records of national assembly no.5, pp.18-19)

“I think that refunding to taxpayers itself can be also a part of welfare policy. This is a matter of choice...This is a matter of reliability. Taxes withheld in excess must be refunded to taxpayers. It cannot be disputable. [The government says] vaguely they might be used as a part of welfare budget. Frankly speaking, how would you minister be accountable for that promise?” (1989, the 147th financial committee records of national assembly no.7, pp.31-32)

These tax debates in the national assembly demonstrate that the income tax exemption system, contingently introduced in the 1970s, was revived for resolving the unfairness of tax system during the democratization period. In order to reform the unfair tax system and to finance welfare budgets, it would have been more desirable to impose heavy amounts of taxes on capital income, business income or highly earned income. However, due to the widespread distrust for the tax policy and the vested interests of rentier classes<sup>17</sup>, to levy more taxes was not practical option. Instead, the downward standardization of the tax burden through the extensive income tax exemption was the easy option to be closer to fair tax system.

It was also very specific that popular demand for tax refunding went so far as to take on an appearance of a sort of wage bargaining. The Federation of Korea Trade Unions (FKTU) filed a petition for the amendment to the tax law, and its main reason was that despite of the rapid wage increase the real disposable income rather decreased because most of the raised wage portion was siphoned off in the form of the earned income tax. By this reason, it even suggested the temporary reintroduction of the earned income tax credit policy as a specific means to refund taxes collected in excess (1989, the 147th financial committee records of national assembly no.4). The opposition parties also comment on the same point in the financial committee as follows;

“If the government just siphons off most of the raised wage portion of wage-earners as now, the wage guideline of suppressing the wage increasing rate under 10% would become practically no longer persuasive; labor disputes with respect to wage bargaining would become more heated from now on; and the government would have no choice but to face serious national tax protest.” (1989, the 147th financial committee records of national assembly no.6, pp.8-9)

In the long run, the politics of fair tax through the tax exemption system led to the weakening of the government’s fiscal capacity for welfare budgets. Tax policy is very important policy measure to intervene into income distribution as well as to finance welfare budgets. However, as the tax exemption system became increasingly principal means to resolve the unfairness issue of the tax system and to alleviate distributional

conflicts, tax policy came to be difficult to play a role of welfare financing.<sup>18</sup> It proves that, in a situation where the democratization was led by the ruling classes and there was the widespread distrust for the government, the tax exemption system, contingently established in the 1970s, came to have strong path-dependent effects on resolving distributional conflicts since the democratization.

#### *From savings mobilization to asset-building support*

While the government's fiscal capacity is severely circumscribed by the extensive tax exemption system, the actions taken for savings encouragement and mobilization in the 1970s are ultimately converted into those for supporting the 'becoming a home owner' scheme.

As a result of rapid economic growth, the Korean economy was at that time experiencing the increasing improvement of income distribution. However, the widening asset inequalities in terms of home ownership and financial asset holding made middle classes feel very sensitive to economic inequality no less than political procedural democracy (Lee, J-W. 1991; Lee, K-S. 1989; Yeon, H-C. 1987: 47-48). Especially the asset inequality issues stemmed from housing shortage problem (The Bureau of Public Information 1992: 237-8; Son, J-M. 2003: 104-120). As all of available financial resources were swallowed up by the industrial sectors during the 1960s to 1970s in Korea, housing supply had been extremely suppressed in spite of the urbanization as rapid as industrialization, which was well reflected in the fact that the owner-occupation rate drastically fell from 63% in 1975 to 49% in 1990 (Kim, J-S. 1987; Yeon et al. 1990: 231-234; Kim, D-K. 2013: 155). Thus, despite of the increasing national income improvement, the inequality between owner-occupiers and tenants rose as a serious social problem.

It was the 'Two Million Housing Construction Plan' that the ruling classes contrived to overcome housing shortage problem, and at the same time to settle the middle classes' discontents (Kang, J-M. 2003: 202-215). Suggested as one of the main pledge in the presidential election of 1987, the plan was devised to supply two millions of housing just for five years, which was of great magnitude as equivalent as 40% of the then total number of housing in Seoul city area (Son, J-M. 2003). This housing construction plan of a grand scale demonstrates that housing policy was emerged as top priority, pushing aside social policy during the democratization period. But, taking into account the severity of housing shortage at that time, it should come as no surprise that the ruling classes came up with the housing supply as a key tool to alleviate welfare conflicts.

Of more interesting, however, was that the employee's asset-building savings plan and the government-managed public fund method, which were the institutional legacies of the heavy industrialization, came to be actively revived with a slight modification in the process of doing the plan. In advance, in order to support would-be home owners in the demand side, the employee's asset-building savings plan was changed into the employee's buying-home

savings plan. In fact, one of the most important motives for household savings in Korea was to buy home, but as the saving encouragement policy was being considered only as an instrument of industrial policy until then, there were little practical measures to help tenants to become home owners. Therefore, the old savings plan needed to be revised to give practical help to tenants by including various financial and tax benefits for savings and buying home (Yeon et al. 1990: 177-80).

Second, in order to finance housing construction in the supply side, the government-managed public fund method was highly utilized. As mentioned above, the heavy industrialization in Korea was financed mainly by the National Investment Fund, but as a result of it, the size of the government's general accounting system became relatively small, and the government's fiscal capacity for welfare funding was widely restricted. Accordingly, with regard to the 'Two Million Housing Construction Plan', the public fund like the National Housing Fund, not a general accounting system based on taxation, came to take a decisive role of channeling a huge amount of money into housing construction sector (Korea Housing Bank 1988; Park, T-K. 1989; Yeon, H-C. and Min, J-S. 1988; Kwack, T-W. 1991). Adding to that, in the end of 1980s the 'special account for financial investment and loan' system was reformed to synthetically channel the reserve money of the National Pension Fund and the revenue from the privatization of public enterprises into housing sector (The Ministry of Finance 1989; Yoon, K-Y. 1991; Lee, H-K. 1995: 133-4).

Both the employee's buying-home savings plan and the National Housing Fund prove that the institutions introduced for domestic capital mobilization in the past were again revived for the different purpose; that is, if the employee's asset-building savings plan in the 1970s was contingently introduced just for capital mobilization, the employee's buying-home savings plan in the 1980s was strategically utilized in response to distributional struggle.

This conversion from savings mobilization to asset-building support was to offer institutional bases to consolidate the developmental bargaining, and also had the political effect of conservatizing the middle classes. In lack of substantive social security system, winning the ownership of an apartment became one of the most important factors to form the middle class identity, to increase household's wealth, and to secure their lives (Kang, J-M. 2003: 202-15; The Monthly Mal July 1989, pp.20). Furthermore, wealth increases through the rise of housing price became the main tool to make people individually enjoy the fruit of economic growth (Ronald 2008). In the political aspect, middle classes' obsession with home ownership was very favorable to the ruling class who had to by all means decouple the middle classes from the democratic movement because it easily made middle classes disinterested with social policy issues (The Monthly Mal July 1989, pp.20; Jeong, H-G. 2011; Kim, H-K. 1994: 41-44; Yoon, S-C. 1997: 161).

As a matter of fact, the welfare reform in Korea during the democratization period

was closely intertwined with fiscal reform and tax reform. In advance, the expansion of public finance had to be accompanied with the reduction of government-managed public funds because the government-managed public funds had substantially suppressed the expansion of general accounting system until then. Second, the welfare reform had to be combined with the tax reform because the income tax exemption system had functioned as a sort of alternative income security measure and lowered the level of tax burden. Lastly, all these reforms should mean that the developmental bargaining would be changed into a sort of welfare bargaining because it would become more difficult to expect the role of household saving as a welfare-finance nexus. Thus, if the ruling classes genuinely intended to improve public welfare system, it must have launched fiscal reform in advance. The truth was of course that; social policy was only institutionalized in a market-conforming way to reflect the principles of contributory entitlement and selectivity; total tax burden was still kept low due to the extensive amount of the income tax exemption; last but not least, the government-managed public fund remained still important and its function gradually moved from the investment to the welfare.

## **Conclusion**

One of the difficulties in the East Asian welfare studies is that analyses for social policy are hard to disclose the features of the relationship between the state and grassroots citizens. The analysis of social policy is deservedly expected to unveil the defining features of citizenship. It comes from the fact that social policy in Western Europe was the outcome of the self-protection of society against the operation of self-regulating market (Polanyi 1944; Esping-Andersen 1990). However, most of social policies in Korea were introduced by the authoritarian governments with the purpose of gaining political legitimacy, and, given from the above, they did not reflect upon social demands. To put it shortly, social policy in Korea has been exceedingly disembedded with people's everyday life.

This specificity raises the question of what is to be compared in order for the East Asian welfare studies to "eliminate faulty implicit comparisons" (Tilly 1985: 169). Over the past couple of decades, the post-war Third World states strived to import organizational structures and policies from advanced countries, and as a result there were dramatic convergence in the dimension of organization and institutions between them (Tilly 1990: 195). However, as Tilly pointed out properly, "such formally similar organizations do not work at all in the same manner" (Ibid: 196), and big differences between advanced countries and Third World states lie in not the institution itself but its relationship and meaning in terms of citizens' real life. The reason is that, in most of the 'imported states', 'the historical process of political evolution or democratic deepening' itself could not be imported (Chang, K-S. 2012: 183).

In order to reveal the features of the state-citizen relationship or bargaining while averting faulty implicit comparisons, this paper focused on how the state's finance control and savings mobilization strategy affected welfare conflicts in Korea, and emphasized that welfare conflicts were by no means restricted to social policy issues alone.



First, during the industrialization period, for the sake of capital mobilization, the Korean government almost forcibly encouraged household savings with the provision of various financial incentives, and put stress on the welfare function of household savings. It even tried to forge the life-style based on thrifty, austerity, self-help, or self-reliance through savings campaign. Furthermore, the savings mobilization in combination with the state-controlled financial system made it possible for the authoritarian government to extensively make use of the income tax exemption system (i.e. huge income tax cut) to prevent the decrease of disposable income under the low-wage policy. Thus, as the by-products of savings mobilization strategy, the developmental bargaining began to be formed that most people made their living based on high household savings and low income tax burdens, and in the long term the size of tax state and the fiscal capacity for welfare programs became attenuated.

Second, during the democratization period, institutional legacies of the developmental bargaining were consolidated. At the beginning, the democratization from the below made the growth of public welfare predictable. However, the 'transition through transaction' in the final outcome made it possible for the ruling classes to take advantage of the previous asset-building savings plan and income tax exemption system as means to cope with intensifying welfare conflicts. Especially, with the strong demand for tax-refunding, the politics of fair tax had the downward effects of lowering the level of tax burden as a whole, and under the situation of severe housing shortage, the strong desire for becoming a home owner made middle classes distracted from public welfare issues. As a result, overlapped with historical contingencies, the institutional mechanisms of the developmental bargaining based on high household saving rate and low tax burden became consolidated even since the democratization.

The emphasis on finance in welfare studies could cast important theoretical issues. First, welfare scholars have so far wrestled with the riddles of whether there are differences between the West and the East, or within the East Asian region, in welfare worlds and, if so, how it can be explained. The emphasis on the state-controlled financial system and the savings mobilization could reveal that while the state-making based on tax mobilization led to welfare bargaining in the western countries, the state-making based on savings mobilization led to developmental bargaining in Korea, and maybe in East Asia.

Second, the emphasis on finance in welfare studies can cast a new light on the relationship between welfare reform and globalization. Recent financial globalization has spurred researchers to examine how financial factors affect people's everyday life or the state-society relationship. It can be said that people's increasing dependence on household savings and household debts is the other side of the retrenchment of the welfare state. Perhaps the most salient change has been taking place in the field of pension and old age security. With the population aging, the middle and upper classes began to make use of financial commodities as a measure of old-age income security, and in result the immense

bundles of monies poured into capital market; that is, capital market came to compete with the welfare states in the field of income security (Blackburn 2003; Langley 2008; Minns 2001; Seabrooke 2006). South Korea, as a forerunner case of the financialization of everyday life, could give implications on how the life-patterns based on savings (or financial commodities) could affect the state-society relationship or citizenship rights and what kind of social problems they could bring about.

## Notes

1. The CPF is a mandatory individual saving scheme to which employees and employers at once contribute to a certain portion of wages, but in which only those employed covered without any redistributive mechanisms (Kwon 2005: 7; Holliday 2000: 712). It was introduced not only for the purpose of social policy such as old age income security, housing, health care, and education, but also for providing the government with a very stable long-term capital for its economic plan (Kwon 2005: 7; Holliday 2000: 712-3; Peng and Wong 2010: 665).
2. The Postal Saving system is the biggest financial institution in the world, and the Fiscal Investment and Loan Program (FILP) is the special accounting system put outside official budgetary process (Cargill and Yoshino 2003; Park 2011). They were the key frames of capital mobilization in postwar Japan. By the same token, Johnson (1982), Calder (1990), and Anderson (1993) shed light on the linkage of saving, welfare, and the developmental state, and Estebez-Abe lays stress on the welfare-finance nexus in Japan from the perspective of the 'varieties of capitalism' (Estebez-Abe 2001).
3. The new fiscal sociological approach buttresses this taxation-welfare relationship in the aspect of comparative study by delving into various relationships between tax structure and welfare system (Prasad 2006; Kato 2003).
4. While the developmental state studies heavily focused on the role of finance and its impact on state-business relationship, it rarely did "in terms of public and constitutional stipulations of the state-citizen relationship" (Chang and Turner, 2012: 3).
5. In terms of three strategies suggested by Wallerstein (1979: 76-83), Korea seemed to follow the strategy of promotion by invitation (Lim 1985: 93).
6. In this vein, Korean economy is often called the 'autonomy-oriented dependent economy' (Lim and Song 1994).
7. R.A. Musgrave was the expert of public finance and economics professor in Harvard University.
8. The government confiscated the shares held by big business owners as part of accusation of illicit wealth accumulation
9. Nam Duk Woo, the Minister of Finance, back in the 1973, says that economic bureaucrats back then came up with the NIF idea by referring to Japan's fiscal system (Nam 2009).

10. It is because government-controlled public fund could escape from the national assembly's surveillance and control by the reason of not being financed by taxation.
11. The income tax exemption point means the income level which is entitled to pay no earned income taxes.
12. Besides of the huge tax exemption, the Decree includes that the high-income and the extravagant consumption should be heavily taxed, and the enforcement of the National Welfare Pension System should be indefinitely postponed because it was criticized as a sort of compulsory saving scheme, etc..
13. In international comparison, the level of tax burden in Korea has not been so high, with it below the average even among developing countries (Tait, Gratz, and Eichen-green 1979). Although there are arguments that the tax burden remained very high in the 1970s, it mostly means that the net tax burden (i.e. total tax burden minus social transfer expenditure) kept high because of the lack of social transfer expenditure (Park 1978; Han 1982).
14. Parochial cleavages had the effect on suppressing and supplanting class conflicts or distributional welfare issues (Choi and Park 2010).
15. For example, they worried the possibility that distributional conflicts could be combined to the 'National Economic Theory' of Park Hyun Chae (Yeon et al. 1990). Park Hyun Chae was one of the most representative leftist in Korea at that time, and his book was recognized as an alternative paradigm against the developmentalism.
16. In this paper, the number of news articles about 'tax protest' is used as an index to show the intensity of tax protests.
17. The enforcement of the real-name financial transaction system was necessary for the imposition of heavy amounts of taxes on capital income, business income or highly earned income, but it was postponed because of the protest of vested interests.
18. In fact, the widespread practical use of the tax exemption system in Korea is very exceptional as against other advanced countries. For example, there exists little tax exemption in Scandinavian countries.
19. References written in Korean and Japanese are omitted from the draft paper.

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**The Old Wine in the New Bottle?  
A Comparative Study Between  
the EPZ and FEZ**

*Jinn-yuh Hsu*

# The Old Wine in the New Bottle?

## A Comparative Study Between the EPZ and FEZ

*Jinn-yuh Hsu*

### Introduction

Taiwanese government proposed a new “Free Economic Pilot Zone (FEPZ)” plan which will be put into practice in July 2013. It aims, according to the Council for Economic Planning and Development (CEPD, the pivotal agency of the FEPZ proposal), to liberalize the economy to enhance international competitiveness of national industries, as well as to render the incorporation into the rising economic integration possible (CEPD 2013). The proposal drew fierce criticism from the oppositional party and its think tank, in addition to the attack from the social movement groups such as labor right group. One of the key issues raised by the critics is if the plan of FEPZ is a restoration of the modus operandi of EPZ (Export Processing Zone), which is widely taken as an “outdated” idea prevailing in the less-developed countries. It is argued that the EPZ policy, which designates special zones to promote industrial development with tax subsidies and export incentives, is not suitable with Taiwan, an industrialized country no longer targeting low value-added processing sectors. But, is the old EPZ wine in the new FEPZ bottle?

Both of the EPZ and the FEPZ (or similar idea as Free Trade Zone) are part of zoning strategies in the East Asia. Zoning is referred as a process of assignation of specific pieces of lands in which distinctive regimes of governing and regulation were implemented within the broader normalized rule in the national territory by the state (Ong 2006, XXX). By doing so, divergent packages of incentives and preferential privileges were granted to the capitalists who invested in the special zones, and more than frequently, bipolarized the employees, the high-skilled groups benefited and the under-skilled sucked in the zoning packages. Zoning technology, as argued by Ong (2006), or the policy of spatial concentration of strategic political, economic, and social conditions that attracts foreign investment, technology transfer, and international expertise to particular zones of high growth was one of the intrinsic strategies adopted by the latecomer state such as Post-War II Taiwan, Korea, and post-Reform China. In the sense, zoning technology became part of the endogenous strategies of developmental states, and contributed to the success of economic miracles in East Asia.



However, as argued by Hsu (2011), Hill, Park and Saito (2012), the neoliberal projects penetrated the proudly acclaimed developmental states in the past two decades, no matter it was called neoliberal states or not. In the meantime, more, rather than less, special zones were planned and implemented in the East Asia. Among them, Incheon, Busan and Gwangyang special economic zones were developed in Korea, and the FEPZ, as well as its precursor the Free Trade Harbor Zones, in Taiwan, not to mention more than hundred of zones with variety of shiny names, such as new-and-high technology parks, in China. An intriguing issue aroused around the role of zoning technology in the new context of changing state forms and powers.

This paper will take issue with the method of zoning and state selective strategy. It will examine the relationship between state transformation and the proliferation of zoning policy through a comparative study between the EPZ policy in 1960s and the FEPZ policy after 2000s. The research design .....

### Zoning of Exportism in the East Asian Developmental State

Zoning, following Jessop's strategic-relational approach, is intrinsic to the state strategies which represent initiatives to mobilize state institutions towards particular forms of socioeconomic intervention with a tendency to privilege particular social forces, interests and actors over others (Jessop 1990). Jones (1999) illustrated that state institutions are endowed with distinctive spatial selectivities, which refer to the processes of 'spatial privileging and articulation' through which state policies are differentiated across territorial space in order to target particular geographical zones and scales. The state strategies are profoundly spatially selective.

Through a different Foucauldian lens, Ong mainly takes zoning as a governmental technology in which market-driven strategies of spatial fragmentation respond to the demands of global capital for diverse categories of human capital, thus engend a pattern of noncontiguous, differently administered spaces of "graduated" or "variegated sovereignty" (Ong 2006: 7). Neoliberalism or liberalization is practiced as an exception to normal ways of governmental rule which is supposed to prevail in the national territory. Rather than testifying the demise of the nation-state, zoning is a kind of strategies that the state adopts to articulate with the global mobility of capital, technology and people by selectively liberalizing certain areas from national normal regulation.

Interesting enough, zoning phenomena, in practice, is most popular in the context of East Asian Developmental States (EADS), which are taken as antidote to neoliberalism (XXX). Zoning in the EADS is closely related to exportist accumulation regime which

is characterized by its extraverted, as opposed to autocentric mode in the advanced countries, growth in the world economy, as suggested by Jessop and Sum (2006). Basically, the EADS focuses in the part of manufacturing only in the global commodity chains (GVC) with externally final market and product design which are located in the advanced countries. Remaining competitive in the factor supply becomes imperative for the EADS regulation, since the demand is often out of their control. The extraversion of the EADS brings forth the modes of inter-scalar connection as a key dimension in exploring how economic and extra-economic regularities are related materially, spatially and temporally. Following Jessop and Sum (2006), since the 1960s, three phases of exportism in the EADS can be distinguished by their space–time reach, modes of interscalar articulation and strategies for governing capital accumulation. Accordingly, three typologies of zoning as the spatial organization of exportism evolve in the process of state transformation.

In the first stage of exportism around the 1960s, the EADS, particularly Korea and Taiwan, inaugurated their export-led growth in the 1960s. Cold-war geopolitics embedded the GVCs in East Asian development, while the US market became the major market outlet. In the context of external threat of communism, the foreign aid mainly from the US rendered the development for security possible. Exportism, a pragmatic adaption of mercantilism, was used by the state to realize the will to develop (Woo-Cumings 1999).<sup>1</sup> Instead of being a passive administration that takes market for granted and takes charge of a sound regulatory environment only, the EADS is an interventionist one, and plays an active role in targeting strategic industrial development (Wade 1990, Amsden 1989, Evans 1995, Pempel 1999). In the financial terrain, the state adopted a cautious, even repressive, attitude to the potentially subversive capital flow. Developmental state is argued to actively guide the trajectory of national economic development with a will to catch up or develop in the international economy (Woo-Cumings 1999, Johnson 1999).

The first phase is simple exportism, and the EADS mainly takes advantage of cheap labor, land and loose regulation to participate the New International Division of Labor (NIDL) in which the exodus of capitals from the advanced countries seek for processing of industrial products in the developing countries (Froebel, Heinrichs and Kreye 1980). The state in the simple exportism usually is usually an authoritarian regime to eliminate social unrests, such as labor and environmental movements. The contradictory concurrence of repressive regime and liberalized zones became the key characters of the simple exportism.

Born of civil wars that have not ended, the developmental states in South Korea and Taiwan demand the populace of economic sacrifice and compliance for economic nationalism, and subsume the development of social and economic institutions to exigencies of national survival. The pull of nationalism is particularly preeminent when Amsden (1989) raises the idea of national champion to paint the rise of the Korean Chaebols in the late-industrialization process. Not only positioning the state within the context of late development, the thesis of developmental state also stress the influence of economic nationalism. In a sense, the EADS is a nation-centered, or entrapped in national territory. National boundary and domestic/

foreign demarcation is seemingly, though never in practice, clearly defined. Nation-state is the key player in identifying market niche or connection in the internationalization process, and the nurturing domestic industries is the pillar of the developmental policies. Foreign aid and capital are welcome with the condition to engender employment opportunities and stabilize fiscal balance. Under such circumstance, the EADS implements partial liberalization policies.

However, as the EADS state inscribes its authority in a continuous body of bounded territory but embeds in truncated GVCs, the simple exportism is not without its contradictions. One of the key concerns is the security issue of national economy. In particular, the economic nationalism of the EADS is first and foremost an ideology which seeks to promote the values of national unity, power, autonomy and sovereignty, but at the same time, economic liberalization to match the demand of exportism is imperative for the survival, and could lead to the vulnerability of the national economy to external forces. Another issue is the lack of control over product design and consumption in the truncated GVCs. It could lead the hosting country of foreign capital to a processing enclave without upgrading for the whole economy.

Developmentalism, doubtlessly is the catchword in this phase of exportism for the EADS. A political investment in the promotion of development as a way of improving national people's living material standards, or the will to develop, is argued to make the EADs distinction from their counterparts in other developing countries (Johnson 1999, Escobar 1995). Liberalization is conceived as the necessary measure to achieve the goal of developmentalism, in light of the lack of capital, technology and market in the post-War East Asian states.

The second phase of exportism: technology upgrading, deepening exportism and import substitution. Triangular Manufacturing

The real thrust of change comes in the third phase of exportism around the late 1980s, and dramatically apparent after the Asian financial crisis in the late 1990s. While some scholars attribute the change to the pressure from the core countries, mainly the US, and international institutions, such as IMF and World Bank, to impose structural adjustment policies on the EADS (XXX), others focus more on the internal factors, such as political crisis and interest realignment (XXX). In fact, the forces of globalization, such as the rise of network society and knowledge-based economy, could change the dynamics of exportism after 1990s.

One of the key debates about the transformation of the EADS is how to properly conceptualize the causes and impacts of neoliberal policies (Park, Hill and Saito 2012), but it is consensus that the state no longer solely command the economic height and lead the market as transborder investments and trades become the norm in the globally integrated economy, state power are being severely constrained. By and large, engaging

in global production and competition aligns local capitals with the interest of their international partners, and undermines their embeddedness in domestic state policies. Consequently, it adds ceilings on the territorially centered state's leadership in intervening firm's activities, and forces the state to restructure itself to be better positioned in handling local-global connection.

But, the emerging populist democratic movement challenges the authoritarian EADS in the late 1990s and affects the politics of exportism in two main dimensions. The first one is the change of state-society relations and income redistribution which might hatch East Asian welfare state (XXX). The fading of state authority in coercing the sacrifice of welfare or coordinating divergent economic interests becomes clearly evidenced in the process of democratization. Those who are hurt or disfavored in the exportism seriously attack the state's hegemon of developmentalism. Another one effect is the gradual collapse of the centralized state structure. Local states no longer play as an implemental machine of the centralized state apparatus. More policy participation is called from the local governments, even at the community levels. Accordingly, more resource allocation is devolved to local states (XXX). Managing local-central relations become an inevitable element in the democratic-cum-populist governance.

Given the confinement of extra-national forces and the transformation of local-central relationships, the states in East Asia is far from demise, but strive hard to play as the agent of liberalization for the reason of enhancing the positions in international competitiveness.<sup>2</sup> Trade liberalization is widely raised by the states which overwhelmingly relies on exports in the wake of rising regional economic integration after the 2000s. FTAs (free trade agreements) have been viewed by the states either as a response to the costs of increasing interdependence and/or to the demand by domestic exporters to level the playing field when their rivals benefit from preferential trade agreements. Indeed, political regionalism follows closely with the economic interdependency (Dent 2006, Ravenhill 2010). The agreements often cover more than export and include the mutual liberalization of capital investment. It is important for the capital in the East Asia which becomes major outward investors after the 1980s. Accordingly, even the politically rival parties, such as the two Koreas and the PRC and Taiwan, start to engage in the capital liberalization negotiation and affect political confrontation and reconciliation.

The states keeps upgrading industries, following the second phase of exportism, but encounters difficulties in locating where the technology frontiers are as the EADS loses the advantage of latecomer, or fast follower, in the knowledge-based economy (Amin 1994, Jessop and Sum 2006, XXX). Fixing the missing parts, the product marketing and design, in the truncated GVCs becomes the key mission of the developmental states. At the same time, the forces of social networking are argued to be critical for engendering new competitive advantage in the knowledge-based industries, such as cultural and creative industries.

Following the global networks of capital, goods and people flow, a number of industries

gain strategic attention: financial and producer service sectors, global logistics and the recruit of high-skilled labor. Rather than financial depression, the states has to, though reluctantly, liberalize the capital flow and legalize the risky industries, such as the financial derivatives, to create a friendly business climate and act as an agent of competitiveness enhancer. Among others, global logistics may be conceived as the convergence of transport and technology in flow management, and attract more policy attention in the advent of just-in-time in the triangular manufacturing of GVCs. Finally, the reduction barrier of the movement of high-skilled or professional people is promoted to be critical for the era of brain circulation.

In this phase of exportism, competitiveness became the hegemonic policy discourse, and the yearly reports of competitiveness at various scales, from urban, regional, national to global, published by various agencies become the yardsticks against which the governments at different scales benchmark and mobilize to upgrade in the rankings (Sum 2009, Tyler et al 2009). In spite the concept of “national (spatial) competitiveness” is seriously criticized by scholars such as Kurgman (XXX) as a misplaced analogue with firm competitiveness, it becomes a policy package covering a comprehensive scope of business-friendly factors. Among others, the neoliberalization of policy promotes liberalization itself as the goal to enhance competitiveness through the creation of an exit option and policy competition to open up to the free working of international trade, and capital, particularly financial capital, movement (Harmes 2012). Rather than engaging in developmentalist targeting strategic industries in the early stages of exportism, a comprehensive liberalization of business climate is applauded as the key mission of the states to do in the neoliberalization era.

In a nutshell, the use of comprehensive does not denote that the state engages in full liberalization without reservation. In fact, the state usually uses the deregulation as the new method of re-regulation on economic flows, particularly finance and service. The meaning of comprehension here refers to the changing policy goal from specific or industrial sectorial targeting to generic or business environmental improving. Comprehension is particularly both scope and spatial. In the sectorial aspect, the scope of exports no longer confines within manufacturing area but extend to cover service sectors, such as logistics, financial, and even tourist service. In spatial terms, the special zones for liberalization no longer confines within certain spots but extend to cover as far as possible through the zone proliferation or networks of subcontracting in the national territory.

### Zoning as a Statecraft: State Transformation and Zone Mutation

State space denotes the complex ensemble of practices, ideologies, and state strategies and projects that underpinned the restructuring of the institutional and spatiotemporal matrices of state power and everyday life (Brenner 2004, XXX). Zoning, in similar vein, incarnates the material and discursive practices of state power under the different



phases of exportism in the EADS. Accordingly, three generations of zoning can be distinguished in the evolution of exportism: the Export Processing Zones (EPZ) in the 1960s, Science and Technology Zone (STZ) in the 1980s, and Free Economy Zones (FEZ) in the 2000s.

In addition, the zones could duplicate and metamorphose in the process of development. Once a zone succeeds in attracting investment at first stage will become a model for the state to copy and breed in other places. Zoning policy, such as tax break and regulation exceptionalism, becomes a kind of recipes that could be applied elsewhere, but the results might not meet the expectation for zoning overcapacity. Zoning, as a mobile technology, breeds in the geographical industrialization process of national development. Moreover, zones also go overseas and become a kind of petri dish for the cultivation of a host of spatial products, such as internet and information technology infrastructure, factory compounds and office parks, that easily migrate around the world and that thrive in legal lacunae and political quarantine, enjoying the insulation and lubrication of zone exemptions. Zoning becomes part of the global assemblage, and proliferates across the world (Easterling 2008, Ong 2006).

Zones might mutate in the shifting gears of exportism. Many states seek to upgrade their zones to move from manufacturing to information technology or financial services. Rather than being molten into part of the general economy within the national boundary, the zones keep exploiting special treatment to explore the new business and technology windows of opportunities. Mostly, the evolution of zoning is dependent on the embedded institutions, such as the state agency, the industrial association and the labor union, to engage in innovation without zoning trajectory lock-in.

In light of zoning duplication and metamorphosis, zoning becomes a phenomenon of prevalent exceptionalism in the East Asian context. In other words, it starts as a state's special and experimental strategy to explore the emerging opportunities of internationalization, and gradually transforms as a major channel of global connection for the state. It turns from the state zoning, or state establishes zones, to the zoning state, or zones constructs state.

In general, zoning is a spatial strategy of (re)bordering and a mechanism of political quarantine designed for corporation protection. The typology of zoning embodies the socio-spatial relations of state transformation, particularly the relations of bordering, networks of flow and inter-scalar connections.

#### Export Processing Zones (EPZs): the Zoning of the Simple Exportism

The first East Asian EPZ was established in Kaohsiung, Taiwan in 1965. Following it, Masan EPZ was set in South Korea in 1970. The EPZs are export platforms that both connect local and national economies to international markets. Merged the idea of Foreign Trade Zone with manufacturing, the EPZ typically provides cocktails of exemptions that might include

tax break, foreign ownership of property, streamlined customs and deregulation of labor or environmental regulations. It's a kind of policy exclusivity for corporation freedom (Easterling 2008). From the viewpoint of the host developing countries, Aminrahmadi and Wu (1995) propose that EPZs have become attractive because of a variety of advantages offered, including compromise between liberal and protective regimes, a gateway to the international community, lower operational cost, smaller political risk, demonstration effects, and a drive for industrialization (also see Rondinelli 1987). In a nutshell, the idea of EPZ is a political-economic compromise for the host states to find ways of ameliorating the potentially diverse impacts and of extending the potential multiplier and spread effects of the EPZs in the development of national economy.

The performances of the East Asian EPZs are ambivalent. It is widely argued that the EPZs in South Korea and Taiwan, as well as Malaysia to some extent, are performing rather satisfactorily than other EPZs in Asia in meeting the needs of industrialization, engendering employment opportunities, and technology transfer to some degree. Some of the EPZs, particularly those in South Korea and Taiwan, evolve into industrial estates producing high value-added exports in the later stage of development. Aminrahmadi and Wu (1995) attribute the divergent performances partly to if the host countries carry on a successful national industrialization strategy by the developmental states.

In this stage, zoning is the site of the exploitation of simple exportism. But, the method of insertion of the national economy into the new international division of labor (NIDL) is more than often through the partial, rather than universal, liberalization of certain spaces and regions in the East Asia. In general, governance of exceptionalism is used to legitimize the liberalization without shaking the protective regime. Experimentation by zoning is used by the state to, on the one hand, exploit the cheap labor and land to attract capital investment granted by the emerging NIDL, and on the other, avoid the full exposure of the national economy to relatively unstable internationalization process. Even in spatial terms, the EPZs are mostly located in the coastal areas to symbolize the separation from the land of normal rule.

However, the very insertion into the NIDL can fragment economies and societies and create alternative foci of political legitimacy, as argued by Jessop and Sum (2006), Banerjee-Guha (2009) and Arnold (2012). Low-wage labor and maintaining precarious or informalized labor is usually critical for the attraction of foreign capital (Cross 2010).<sup>3</sup> Moreover, the lands taken over by the construction of the EPZs are usually the living spaces of local residents and farmers. Consequently, the establishment of EPZs does not benefit equally among the social groups.

### Bordering the EPZs

One of the key concerns raised by the setup of the EPZs is the border control of goods and people. Under the threat of external forces, the states patrol and police the dividing

lines between inside/outside carefully. Given EPZs are taken as the interface along the inside/outside line, they are indeed a spatial practice of de-bordering and re-bordering. As an agent of economic territorial nationalism, the developmental state makes distinction between domestic (national) industries and foreign capital, and adopts strategic policies to foster the former by connecting with the latter. Rather than taking a binary position towards the zoning policies and dissecting the EPZ as island of liberalization from the national economy under watertight control, the EADS strategically recognizes that the EPZs provide important means for national economies to be favorably inserted into the emerging NIDL. De-bordering will facilitate the EPZs to bridge the international capital flow with local production factors. Far from decentering the nation state (Chen 2005), the developmental nation-states make it clear the EPZs are the bridgehead of experimentation and learning. However, a platform of export might draw up concerns over national security and territorial integrity, particularly for the states of emergency in South Korea and Taiwan. Smuggling and spying are particularly sensitive for the national survival in the cold-war geopolitics. Re-bordering as political economic barriers to block unexpected flow of goods and people is critical to smash the suspects of the EPZ security.

#### EPZs and National Territorial State

In the context of the EADS, the EPZs are used to reinforce, rather than weaken, the national sovereignty as they flesh out that the centralized state could define the general national interest to liberalize part of territory and people to articulate with the international capital flow. A kind of territorial trap, in which the domestic/foreign distinction is assumed to be clear-cut, and the state has to protect the general interest of domestic economy within the national sovereignty (Agnew 1994). Although the EPZs are often described as if they were something extra-territorial and beyond the control of the nation state, they actually reflect state accumulation strategies to fix the national economy. But, the partial liberalization needs accompanying with an integral strategy to connect local/domestic economy with the development of the EPZs. In fact, the spillover effects and externalities are probably limited due to the EPZs' low level of integration into the local economy (duty-free imports act as import subsidies and prompt minimal local integration), the low skills of the labor employed, and the potential volatility of foreign investment. As argued by Wong and Chu (1984), backward linkages with the domestic economy may not be generated, particularly for "assembly type work" using inputs "sent over directly from the parent company, assembled in the zone and then shipped out again." For the "footloose" transnational corporations, substantial linkages may not develop between the foreign firms operating in EPZs and the domestic economy because the international group may prefer, for strategic reasons, not to become entrenched in the host country's economy (Warr 1989).

Under the circumstance, to keep the EPZs as integral to the national development, the states have to foster the industrialization of domestic firms first. In spite EPZs are usually taken as growth centers which are expected to generate economic multiplier effect in employment and subcontracting works to trickle down to the surrounding regions. In fact, the evidence

is ambivalent at best, but it becomes clear that the effect of spillover will not occur spontaneously. Schrank (2001) explains that the absence of strong linkages of the EPZs with the rest of the economy because the relevant domestic market may not have been sufficiently industrialized to take advantage of any possible linkages. Those successful cases of national integration with the EPZs, such as the South Korea and Taiwan, are accompanied with state's strategic policy to encourage the fostering of domestic firms to articulate with the GVCs with the spinoffs from the transnational corporations in the EPZs (XXX).

Similarly, the territorial integration of the EPZs and their neighboring regions has been a thorny issue since the operation of these special zones. Most of the EPZs are planned and administrated by the central state in East Asia for the sake of efficiency and the elimination of red tape, and rarely involve the nearby local states in the operation (XXX). The localization and urbanization economies, the direct and indirect benefits incurred by the clustering of firms, occur through the proliferation of new employment and income which match new firms producing goods and services. It could start virtuous circle, if the positive externalities could, but not necessarily, spread locally. But, urban contradiction, such as traffic congestion, air pollution and the rise of housing prices, unavoidably harm the nearby localities, and need the local governments to intervene to ease them up. Moreover, some EPZs may restructure the local economy in ways adverse to the poor, especially in the agriculture sector, as the studies in a number of developing countries show (XXX). Local participation should be called forth, but the centralized states under the authoritarian regimes rarely take the demand into account. It usually raises social and spatial tensions between the EPZs and the neighboring regions given the centralized governance arrangement in the EADS.

### The Inter-scalar Relations of the EPZs

Doubtlessly, inter-scalar relations constitute the key pillar of the existence of the EPZs, as shown above; the EPZs are the spatial practice of simple exportism of accumulation strategies. The partial insertion of the national economy into the truncated GVCs in the NIDL context is the main driver behind the formation of the EPZs. The configurations of the GVCs involve more than input-output commodity relationships. They are usually the arena where the struggle of the actors, including states and firms, involved over the construction of political-economic relationships, governance structures, and institutional rules and norms (Levy 2008). These actors do not only behave in an "economically rational" way, but are also embedded in a series of social-political relationships. Among others, Glassman (2011) emphasizes the central role played by geo-politics in the constitution of changing GVCs. The embedded geo-politics allows (or restricts) a set of agents and agencies, including states, firms and other non-state institutions, to influence investment and other decisions of companies integrated in GVCs.

Until the so-called "end of the Cold War", the East Asian NICs (newly industrializing



countries) such as South Korea and Taiwan, relied on the US for both geo-political stability and geo-economic growth (Glassman 2011; Gray 2011). The truncated GVCs embedded in geo-politics created an export platform model for the EADS to survive and prosper during the cold-war regime. In this geo-economic regime Japan (and the US) served as the major technology mentor, the East Asian NICs, as the manufacturer, and the US as the key market outlet. At the same time, geo-politically, the tri-alliance among the US, Japan, and NICs constrained communist regimes in China and North Korea from expansion. Political stability and economic prosperity reinforced each other during the cold war.

The establishment of the EPZs usually characterizes the willing to follow the advise from the US aid agency by the EADS. Liberalization and the fostering of private sector are strongly recommended by the US agencies to the local bureaucrats with some aid incentives or discouragement by aid cut before the 1960s (Jacoby 1966, XXX). In some cases, the EADS follows the advise in some cases, such as the allocation of aids for private companies in textile and cement sectors. But, the states reluctantly adopt the liberalization policy with the concern of losing the command height in economic affairs and thus political security (Li 1965, XXX). The EPZs can be taken as a compromise between the geoeconomic reliance and geopolitical security. Zoning strategies always accompany the balance of geopolitical fear and geoeconomic hope (Spark 2006).

The geoeconomic hope stands out in the discourse of (imagined) economic separation/interconnection in the EPZ development. In spite of being raised to promote liberalization, the zoning idea implies that the state border as an economic boundary serves to separate and create the 'domestic' and the 'international' economies as discrete spaces. As argued by Cameron and Palan (2004), a bounded political economy was a prerequisite for the regulation of all forms of inter-national trade, a concept that has no meaning except in a world economy divided by national borders. In fact, the idea of the EPZ is often described as door-open to outside economic flows (Li 1993, XXX), and inside/outside distinction is clearly defined in the discourse. Following the opening of door, the foreign/domestic nexus is rendered imaginable by the transnational corporation as a friendly business-climate is expected to realize through the door crack. The door metaphor also works for the EADS which could take advantage of the nexus to connect with foreign capital, technology and people flow, and at the same time, it seems the state can decide the width of door crack to filter those desirable/non-desirable.

However, it is not clear if the experimentation of EPZs will liberalize the national economy, and could propel export growth for the host states. Two issues are at stake here: one is the "universalization" of the EPZ exceptionalism, the other is the shadow of enclave economy of the EPZ. The EPZ is often taken as transitional spatial technology to allow gradual and incremental transformation of the national economy towards full liberalization and avoid shock therapy and related chaos in the host states (Rodrik 1999, XXX). The door opens slightly in the beginning, but will widely and even being removed in the liberalization process. In the words of K.T. Li, the engineer of the EPZ and export-oriented policy in



Taiwan, “to make the whole (Taiwan) island become an EPZ!” (Li 1988). The EPZ, in the sense, plays bridgehead of connection to international economic flow. But, in other cases, the EPZ is argued to offer an alternative to overhaul liberalization, and might become a barricade to market reform (World Bank 1992). In the words of the World Bank 1992 report, the developing country governments will use their EPZs to engender employment and exports to muddle along without reform. The door could be shut down or just for decoration, in the sense.

Nevertheless, from the lens of the EADS, the concern of economic dependency and the prospect of economic enclave overshadow the development of the EPZ. Given the EADS could take advantage of the dependency to develop the national economy by fostering local capital formation, they are praised as antidotes against the prediction of the dependency theory (Evans 1985, XXX). But, it will be anti-historical to argue the concern of enclave economy never exists. In fact, an image of land and sovereignty concession haunts the debate of the EPZs, as well as other trade and investment liberalization policies. A number of state policies such as requiring local content, joint venture and spinning off might work to reduce the dependency risk, but a hegemony of mutual benefit among the international capital and local economy is inevitably established to crush down the suspicion of servile attitude. A discourse of imagined economy of international division of labor is critical to the setup of the EPZ in the EADS.

Science and Technology Zones (STZs): the Zoning of Complex Exportism  
Science-based Industrial Park (SIP) in Taiwan, Techno-Park (TP) in South Korea

Free Economic Zones (FEZs): the Zoning of Comprehensive Exportism

In the aftershocks of the 1997 Asian crisis and the 2008 global economic tsunami, the South Korean and Taiwanese governments propose Free Trade Zones and Free Economy Pilot Zone to restructure their own “over-regulated” economies respectively. Both of these zones promote liberalization as the means to recover from depression, and expect to attract more investments from foreign capital. The zoning strategy of the FEZs always revolves around terms like openness, relaxation and freedom to constitute the connection with the global economy and enhance international competitiveness.

In spite the states adopt spatially selective strategy (Park 2005), they usually claim that the comprehensive liberalization will be the policy goal in the long run. The FEZs represent the government’s posture to improve the overall business environment, a policy which is often unpalatable in the national economic space due to domestic politics. In fact, varieties of FEZs<sup>4</sup> are institutionalized as part of linked corporate networks that create new forms of GVCs. Consequently; the FEZs acquire a normative, rather than exceptional, role as a vehicle for national development and a value as an experimental space in which to try out free market reforms or new technologies (O’Connell 2005). As the exception

becomes the rule, zones become a pivotal spatial formation - within yet distinct from the nation-state in which they are located - that allows for the re-territorialization of capital in a manner consonant with both the needs of nomadic capital and state development (Bach 2011). The FEZs are the key pillars of globalization strategies adopted by the states.

The FEZs may be differentiated from traditional EPZs in three respects: (1) their location; (2) their shifting nature and magnitude; and (3) their position within the global economy (Wang and Olivier 2006, Easterling 2008). Firstly, the FEZs nowadays are not necessarily clearly defined geographical areas, and single firms may obtain the privileges and benefits that were once bestowed only upon the special zones, if they constitute connection with the new zones by flows of goods and services (Carter and Harding 2011). The inside/outside distinction becomes blurred than the early stages of zoning.

Secondly, the FEZs proliferate in number and type over the past two decades, including varieties of special zones across the East Asia, particularly China. They mostly turn away from a pragmatic space for the production of exports into a connection of places of service provision and, most importantly, urban infrastructures (Easterling 2008, Bach 2011). The free zones such as the EPZ, prior to the last few decades, were usually a fenced enclave for warehousing and manufacturing offering exemptions from customs or taxes. Yet the zoning form that was largely relegated to the backstage has recently taken a position center stage to become a primary organ of global urbanism and world city paradigm. Usually located around the harbors or airports, the planning of the FEZs closely involves massively land development, and even claim itself a City. Many of the FEZs are no longer solely shouldered by government's finance in initiation and operation as in the EPZs or STZs, but are joined by the private sectors in developing and managing under public-private partnership. In practice, the government provides necessary planning and construction, such as the infrastructure in the harbor or airport areas, and leaves the facilities and particularly urban infrastructure in the FEZs and neighboring areas to the private sectors. The cases of Incheon Free Economic Zone and New Songdo City in South Korea, and Free Economy Pilot Zone and Taoyuan Air City in Taiwan well illustrate the trend, for example.

Thirdly, most of the new FEZs found on value-added services, rather than manufacturing capabilities in the EPZs or STZs, provided by the East Asian firms to strategically couple with the complicated GVCs. The emerging FEZs strive to align themselves with the latest trends in producer services in the GVCs, such as logistics, finance, and even medical and education sectors, so that sophisticated logistics parks, distribution facilities, and most importantly, urban infrastructure are now becoming standard competitive features of the FEZs. As a matter of fact some city-regions have become as the engines which connect their siting national economic activities with the broader world economy in the current mosaic global economy (Scott 1998, Turok 2004), the Zone-city (FEZ and its city-region) becomes the key node for the host state to hold down the global spaces of flow.

Bordering the FEZs

The selective bordering is always the core technology of the zoning policy. On the one hand, as in the other two zones, the establishment of the FEZs involves the process of de-bordering. For the construction of good business environment, the FEZs open doors and welcome the inward flow of capital, goods and service, and talents or millionaires. Moreover, some of these special zones particularly welcome certain types and degrees of unregulated economy, such as financial activities or logistics. Usually, offshore economy incarnates the idea of de-bordering as the state concedes part of its sovereign powers and treats the domestic areas, particularly those on the borderland, as foreign ones. But the use of the concept of offshore becomes more flexible in spatial terms in the new stages of zoning. As argued by Palan (2003), offshore is a much broader category that consists of all sorts of 'sovereign' spaces essentially defined by their relative lack of regulation and taxation compared to nation-states. Accordingly, offshore does not necessarily carry the locational "off-shore" implication, but covers lots of inshore lands with the deregulation policy. "Within territory but outside custom (jing-nei-guan-wai)", a slogan of the Free Economy Pilot Zone (FEPZ) designed recently by Taiwanese state to promote a virtual offshore economy vividly demonstrates the de-bordering intension. On the other hand, the FEZs also involve a process of re-bordering. Borders are understood as construction of political economy than naturally given entities (Newman and Paasi 1998). By use of digital technologies, data integration and managerial expertise, the FEZs usually enforce strict, rather than loose, border control against those unwelcome entries, or others, such as low-skilled labor, immigrants and even terrorists. The fact that the border exists not only on the borderline, but also within the national territory, obviously runs against the hyperbole of borderless world which is usually promoted by the globalists (O'Hare XXX). As the zones breed in the stage of comprehensive exportism, borders, which seemed to make national bounded spaces on the basis of distinction and exclusion of others, become complicated for the dividing lines between inside/outside, we/other, and domestic/foreign no longer are clearly fixed and demarcated (O'Tuathail 1996, Lamont and Molnar 2002).

As argued by Agnew (2009), borders are increasingly porous to flows of migrants and refugees without much costly state regulation well beyond and within the borders themselves. In contrast to the stage of the EPZs, the FEZs rely overwhelmingly on high-skilled managers to run the producer service sectors, like logistics and finance, and the rich people to engage in deluxe consumption, like medical service and land development, and the relaxation on the citizenship is taken as one of major measures to attract them. In addition, the intra-firm training of the transnational corporations needs the rotary of their high-rank employees, and the loose control of passport would be a plus for the competitiveness of the FEZs. It seems the state will use the zoning strategy to selectively sell passports, or permanent residency, to economically successful subjects, and subverts an inclusive notion of national identification in favor of a strategic, even opportunistic (or flexible in Ong's term) attitude towards citizenship (Lay 2005, Ong 2006, Agnew 2009).

The selective border porosity is not without controversies. Two issues are at stake here. On the one hand, the inflow of people and capital from potential hostile countries, such as China against Taiwan, or North Korea against South Korea, might encourage border panics or reinforce the fear of foreign contamination. The latent subversion constitutes the geopolitical fear to counter against the geoeconomic hope of the FEZ plans. On the other hand, the possible inflow of low-skilled guest workers always inflame labor groups who worry the downgrading of local working conditions by the massive introduction of cheap labor in the FZEs. The inflammation also spread to the popular concern about land speculation caused by the inflow of rich entrepreneurs in the construction and consumption of urban housings and infrastructures in the Zone-cities. The balancing of de-bordering and re-bordering will incarnate the state form as a struggle arena in the global transformation (Passi XXX).

### The FEZs and Territorial Development

Mostly born in the torrent of economic crisis, the FEZs are designated for enhancing international competitiveness by articulating with the global flows of capital to attract inward investment and increase employment in the national economic development. In contrast to the EPZs and early STZs, local and regional development has been claimed as the central pillar since the idea of FEZs is proposed by the states. The participation of the local state in the FEZs plan is secured in the democratized East Asian states, and lead to the development of zoning from place-specific to territory-oriented. Two methods of territorial development will be practiced.

Firstly, a special subcontracting network is often arranged to connect the firms in the zones and those outside. According to the zoning rule, it requires that only new investments within the zones are qualified to gain the concessions towards tax, land and passport control. But, to facilitate the local spillover, these firms can benefit other outside firms by subcontracting their jobs and create employments and induce investments across the national territory. By doing so, the central state grabs the enthusiastic supports from the local governments without zones. For example, a special deal of “Store forefront, factory backdoor (qian-dian-hou-chang)” which will allow those outside firms to take advantage of the special concessions without being located within the zones by taking orders from the stores, is proposed by the Taiwanese state to persuade the supports from the legislative members who are not based on the zoning areas.

Secondly, the rise of city-region around the zone is particularly critical to the territorial development for the central state. The construction or remodeling of city becomes a key feature to distinguish the FEZs from their zoning counterparts and the urban facilities are bounded around the zone and the zone provides the entry point to global networks for the modern city (Bach 2011). The zone aims to hybridize with the city in the creation of a zone-city to engage in global competition. The physical space of the zone-city is meticulously and generically designed to fit various norms of factory, storage, dormitory, and residential space



spread along grids of highways and railroads leading to ports or airports. In particular, the East Asian zone-cities, such as Taoyuan Air City (Taiwan) and New Songdo City (Korea) are designed to privilege logistics, efficiency and mobility to connect the local economy to the GVCs, and equip the city with the advanced information technology facilities to respond to the fantasy of frictionless space in the global space of flow (Castells 1996).

In fact, it is in this guise of frictionless city that the zone-city promises the investors that capital accumulation will expedite on a clean slate with minimal government interference. Moreover, the development of zone-city involves the massive participation of private sectors, particularly those in land capital, such as developers, architects and bankers, and leads to real estate booming in the zone-city plan. The skyrocketing land price always becomes part of the zoning phenomenon in the stage of FEZs. Similar to many cases of public-private partnership, the central state takes charge of the construction of zoning infrastructure, the benefit accrued in the land development almost is exploited by the land developers. In some cases, the undemocratic land grabbing from small farmers and landowners blames the state. Ironically, the idea of zone-city is still welcome by the local states as the land price is translated into an index of local competitiveness which is benchmarked as a key element in local prosperity and governance, and could earn the local politicians the political supports in the age of comprehensive exptism.

#### The FEZs: A Compromise of Geoeconomic Hope and Geopolitical Fear?

While the EPZs are geopolitically embedded in cold-war system with a geoeconomic configuration of New International Division of Labor (NIDL), the practice of FEZs is shaped in the geopolitically post-cold war regime with the emerging transnational regionalism and bilateral free trade agreement. A discourse of globally integrated economy has replaced the idea of nation-state centered international economy as the hegemonic force in the economic imagination. In the globalization imagination, the borders are bent, and the transborder subregional integration emerges across the world, and particularly in the Pacific Asia (Chen 2005).

A key concept particularly relevant with East Asian development is the emerging GVCs, in which the intertwined production of goods and service penetrates each regions and localities across the world. The GVCs drive the social and developmental dynamics of contemporary capitalism of the global-local nexus and are central for the survival and prosperity of transnational corporations in the interconnected global economic system (Dicken et al. 2001). Each region's prosperity and survival hinges on the coupling of GVCs with embedded regional assets, which are mediated by a range of institutional activities across different geographical and organizational scales (Coe et al. 2004). In the sense, the FEZs would be the zoning strategy mobilized by the state to hold down the benefits accrued from the divergent participation of the GVCs.



It is argued that the GVCs become more widely open to developing countries and embrace the post-socialist countries in the globally integration economy. In particular, China becomes a key player in the shaping GVCs, as a world factory in the complex exportism, and as an emerging economic power, the second largest economic body in the world since 2012. The rise of China as a non-disdainful capital investor and buying power in the world economy becomes a controversial issue, particularly for those countries which might remain unconfident politically towards China. As shown above (in the section on STZs), a configuration of triangular manufacturing emerges in the post cold-war East Asia. The GVCs are increasingly shaped with a manufacturing base in China or India and the market for final products in the US and Western Europe. The first-tier East Asian NICs (newly Industrializing Countries) such as Taiwan, Hong Kong and South Korea play a middleman role in such GVCs. Moreover, one unexpected effect of the current financial crisis is the consolidation of GVCs and the growing salience of consumer markets in the South (Cattaneo, Gereffi, and Staritz 2010). The shift to Southern markets, and the growth in South-South trade, a new geo-economic pattern, has created new opportunities and challenges for those firms and their host regions which are embedded in existing GVCs with a predominant focus on Northern economies, mainly the US, for their final product markets.

In fact, the FEZs go farther beyond triangular manufacturing to demonstrate their frictionless features for the logistics of goods transportation and even processing. The feature of frictionless is particularly significant in that the zones promise the investors that their products will remain undetected by and independent of any political jurisdictions when they are transported within the networks of similar special zones supported by autonomous infrastructures. The FEZs are said to be able to magically change the label of country-of-origin in the goods processing, and ship duty free with the required “made in” label for specific markets (Easterling 2005). It is beyond imagination when the national borders remain watertight in the early stages.

The post cold-war geopolitical embedded GVCs create opportunities and tensions for the East Asian states, such as Taiwan and South Korea. In Taiwan, the reliance on the market and capital of China, a potentially hostile country, rapidly (and maybe ironically) becomes trendy, and attracting the investing capacity of Chinese entrepreneurs and targeting the consuming powers of Chinese millionaires are (fatal) attractiveness for the feeble economy. The welcome towards China, as well as other foreign, capitals by liberalization is also used to recover from recession, and a parallel free trade agreement, ECFA (Economic Cooperation Framework Agreement) is signed by the two sides of Taiwan Strait in 2010. Moreover, more economic interaction across the Strait implies a response of Taiwan’s government to the rise of Asian regionalism in which Taiwan is virtually excluded due to its contested statehood. The hope of geoeconomic cooperation across the Strait is claimed as a must good by the government.

However, the fear of geopolitics still haunts the sanguine picture of a win-win situation due to the bonus of free trade and the democratic consensus under the market regime. The

concerns over a nation's exposure to external shocks and interference in relation to economic security (Krieger-Boden, Morgenroth and Petrakos 2008), and the effects of social polarization and regional disparity are raised by the social groups and economic nationalists. In particular, the irony is that Taiwan relies on China's market as an antidote for the economic crisis but wants to maintain political distance from its neighbor across the Strait. The geo-political fear of "being swallowed by China" does not fade with the rise of cross-Strait economic hope. Just as rightly pointed out by Cowen and Smith (2009), geo-political calculation, or territorialized power, cannot be extinguished by the rise of geo-economics, but it is significantly circumscribed and reworked. As a result, the design of the FEZs is a key instrument for the state to manage the compromise between the geoeconomic hope and geopolitical fear in the post cold-war regime.

The Korean story is similar with a slight difference. Free trade agreements in Korea are aggressively sought after the Asian economic crisis in the late 1990s. Partly pushed by the international organizations, such as the IMF, but mainly caused by the international competition, the Korean government aggressively signs free trade agreements (FTAs) with the OECD countries on which the export-led growth depends. But, these FTA strategies have at the same time had negative implications for workers and the enthusiasm with which the Korean government has pursued these agreements has often been cited by critics as evidence of the pervasive influence of neoliberal ideology (Park 2005, Pirie 2008, XXX). In addition, the industrial giants, chaebols, monopolize domestic market and defy the overhaul liberalization and the entry of foreign competitors (XXX). Yet, for a nation that is profoundly and increasingly dependent on exports, it seems that recent geopolitical transformations, particularly the rise of China as world factory, have left Korean policy makers with little choice, at least within the dominant paradigm of export-led capitalist development. A spatially selective liberalization policy is implemented as the compromise to meet the demand of free trade and the protests against the FTAs (Park 2005).

#### State-Zone Nexus: From State Zoning to Zoning State

Through the comparative studies between the EPZs and FEZs, seven points are raised as the preliminary conclusion, as follows.

First, the designation of each zone incarnates the state's strategy to exploit the opportunities of divergent regimes of growth, or different stages of exportism, and selectively incorporate part of its national territory into the framework of international division of labor with sovereignty concession. The state zoning validates the arguments of exceptionalism proposed by Ong (1999, 2006), and the spatially selective political strategy proposed by Jones (1997), Brenner (2004), and Jessop (2001). In the strategy, the state selectively deregulates the administration, and imposes exceptional policies in specific zones to attract foreign investments, and at the same time, avoids the disorders drawn forth by the "pre-mature" inflow of capital and goods. Relaxation on border

control to engage in experimentation in the special zones is the key to the development of zoning by the state strategies. The zoning process defines borderline, or the world inside/outside the border. In the EPZ mode, the border exists on the national edge, and EPZ is used to host the foreign capitals, mainly from the US and Japan, the alliance countries in the cold war, to bring forth employment, and window of technology opportunity. But, in the FEZs mode, border is not a line demarcation, but a porous and digital front, even within the national territory, which might be penetrated by economic flows under the special arrangement. Nevertheless, certain level of balance and compromise between the hope of open-economy and the fear of open-politics always characterizes the specialness of zoning at each stage. However, given the original idea of exceptionalism in the zoning strategy, the zones proliferate and diffuse across the national territory and become omnipresent in the East Asian contexts. State zoning, or state uses zoning as exceptionalism, becomes zoning state, or zones cover state as universalism.

Second, one of the dynamics behind the zone diffusion comes from the changing contexts of techno-economic paradigm and thus the shaping forces for the zoning policies. The paradigm shift from Fordism to post-Fordism, or from the simple exportism to comprehensive exportism, is partially responsible for the transformation of growth regimes in the EADS. The manifestation of the transformation in the industrial development is the changing gears from industrial sectorial targeting to business climate improvement. The roles of zones, in the sense, mutates from a growth pole to propel certain industrial sectors, to a demonstration showcase to improve overall business competitiveness.

Third, the rise of public-private partnership (PPP) will dramatically transform the governance of zoning. Take the case of the EPZs in Taiwan as example. The role of private sector in the EPZs stage is not significant to make decisive impacts on the strategy. In spite of being praised as embedded on business networks in policy-making (Evans 1995, Weiss XXX), the EADS control and even manipulate the activities of the industrial associations at the early stage of development. No wonder the industrial associations are not consulted in the planning of the EPZs. At that time, some concerns are raised by the congress about the unfair competition with off-zone exporters, and the state promises to enforce strict regulation against smuggling to avoid the inflow of goods across the zone line. However, the voices from the US government, through the US aid agency, actively speak out for the private sector in general. In fact, the major player outside of the bureaucrats to engage in the EPZ planning is the adviser of US aid agency which introduces and pushes the government to liberalize the regulations on economic affairs to foster the private sector (Wen XXX, Li XXX). But, the situation change starkly in the FEZ stage, since the private sectors are enthusiastically invited to join the planning and implementation of the zones under the initiatives of PPP. In particular, both of domestic and foreign land capital, such as land developers, construction companies, and architecture firms, are aggressively sought to invest in the zone-city development. Moreover, a private company with the public authorization, in the long run, will govern the zones. A kind of para-state institution will run the zone-city which constitutes a significant effort to thread together transnational networks of capital,

people and goods flow in the seeming absence of any robust governing laws and bodies (Easterling 2008, Bach 2011).

Fourth, the decentralization of state project also affects the paths of zoning evolution. In fact, the democratization process in the EADS ironically triggers territorial competition among the localities for the zone choice (Hsu 2009, Park 2005). The specialness of the EPZs is featured by their locational isolations from the inland areas, and institutional buffer from the domestic market at the early stage. Spillover effect accrued by geographical proximity is not well planned and usually occurs accidentally. National, or sectorial, growth is on the top priority list of the EPZs policy, but local development is not. However, democratization offers a political space for the local development to gain legitimacy, and put the maximum consent from local states on the top of policy consideration. As a result, zones, in spite of remaining specialness in appearance, become omnipresent through the duplication or subcontracting in practice.

Fifth, social struggle plays an increasingly important in shaping zoning strategy which in turn aggravates social conflict. At the EPZs stage, the state, to some extent, insulates decision making from the bottom-up forces, and excludes the participation of labor unions, if any, and environmental groups from the planning and management of the special zones. It is widely argued that the EPZs increase employment opportunities but degrade labor standard and environment quality. But, no significant difference exists in the frequency of labor disputes and environmental complaint between the in-zone and off-zone firms, since the social groups, including labor union, are strictly under control by the authoritarian regime (XXX). In contrast, labor protest on the issue of deregulation on guest workers in the FEZs becomes a thorny issue at the planning stage. Moreover, land-grabbing issue also bothers the land appropriation for the expansion of zoning, and leads the state to modify the plan to avoid fierce confrontation. However, the designation of zone-city in the later stage arouses the social concerns about the potential of land speculation which has become one of the most serious complaints since the 2000s. Worst of all, financial liberalization, the backbone of comprehensive exportism for enhancing international competitiveness doubtlessly will aggravate the land redistribution issue. It goes beyond suspicion that social struggle will haunt the development of the FEZs, and might change the trajectories of zoning state.

Sixth, while the EPZs reflect the spirit of the EADS with certain sense of mercantilist nationalism to catch up the advanced countries under the cold-war geopolitical regime, the FEZs embody certain kinds of neoliberal nationalism to enhance national competitiveness under the post cold-war geoeconomic system. Mistaken as a nationalism versus globalism, the stark contrast between the EPZs and FEZs is not the existence of nationalism or not, but in the form of economic nationalism. The EADS takes the EPZs as intrinsically profitable for the manufacturers at world prices given their low wages. By subsidizing infrastructure to enable foreign firms to access duty free imports in exchange for a commitment to export 100 percent of their output, the EADZ uses



the foreign forces to engage in latecomer industrialization by engendering employment and transferring technology. As Amsden (2001) argues, the economic nationalism for the EADS is to gain the ownership and control of firms and technology by engaging in attracting capital investment and promoting goods export. EPZ, in the sense, illustrate the will to develop of the EADS. Similarly, a motivation to utilize foreign factors to enhance national positions within the international framework lives in the body of the FEZ policy discourses. However, given nationalism in spirit, the embodied neoliberalism of the FEZs takes competitiveness, or the attractiveness for foreign investment and consumption, as the key index of national upgrading. In fact, promoting liberalization to enhance competitiveness, at national, urban and regional levels, becomes the campaigning discourse to mobilize popular consensus of development (XXX). Instead of rejecting economic nationalism, the model of FEZs reflects that the state no longer adopts the model of the EPZs to focus on technology transfer and industrial targeting, but to articulate the national economy with global economic flows to reposition in the ranking of international competitiveness by concession on tax and sovereignty.

Seventh, surely the special zone policies do not necessarily reach their goals, and are not without controversies. Divergent zoning strategies and *modus operandi* substantialize the different compromises of the hope of geoeconomic integration and the fear of geopolitical calculation. They also concretize the different imaginations of globalization and global-local nexus. In the EPZ mode, globalization means the emerging NIDL with the special zones to host the capital from the US and Japan, the alliance countries in cold-war, for simple export. Under the shadow of colonialism, an economic enclave privileging the transnational corporations is argued to hurt local economy and should be worried by the policy makers. The relaxation on border control of migration also is not feasible in the cold-war mindset. In contrast, the FEZs are used to take advantage of the emerging global spaces of flow, including capital and people, in the post cold-war economy for comprehensive export such as finance, logistics and even tourism. The FEZs also symbolize the frictionless and borderless globalization by permitting the change of label of country-of-origin for the inter-zone production networks. However, the issue of economic security which revolves around the over-reliance on the potentially subversive countries, such as China, bothers the development of the FEZs. Moreover, just as rightly argued by Cowen and Smith (2009), the rise of geo-economics will not extinguish the geo-political calculation and might result in geo-social confrontation in which political and social agents struggle to identify threats and opportunities for national survival, and lead to social cleavage divided along the line of geopolitical calculation. Under such circumstance, the basic tenet of unified national will to develop in the EPZ mode is seriously challenged by the divided social groups. The social cleavage caused by geopolitical controversy will destabilize the development of the FEZs, and invalidates the work of developmental state in guiding the zoning transformation.



## Notes

1. Before the export-oriented industrialization, South Korea and Taiwan engaged in import-substitution policy in the 1950s. The reasons behind the policy change include the saturation of small domestic market, the policy advice of US aid officials, and the Western-trained local bureaucrats (Haggard 1986). Another key driver is the deficit of the international account since the primary import-substitution policy incurred, against the policy expectation, more imports in machinery and component and led to the deterioration of the balance of international trade (XXX). Consequently, a policy shift to export orientation makes sense.
2. David Harvey argues: 'the neoliberal state needs nationalism of a certain sort to survive. Forced to operate as a competitive agent in the world market and seeking to establish the best possible business climate, it mobilizes nationalism in its efforts to succeed'. (Harvey 2005: 85)
3. In terms of labor standard, it is hard to argue the labor conditions in the EPZs are necessarily worse than those outside. Limiting the study to the textile and clothing sector, Romero (1995) and Kusago and Tzannatos (1998) consider that there are no significant differences between the wages paid in Asian EPZs and those paid by other companies in the same sector. But, Ong (XXX) shows those female workers in Malaysian EPZs are controlled and exploited seriously.
4. According to Meng (2005), by the first decade of the 21st century, there are at least 66 terms for the free-something zones in circulation.



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# Putting the Korean Developmental State in its Localities: A Multi-scalar Analysis of Industrial Complex Development in the 1960s and the 1970s

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## 1. Introduction

In explaining the economic success of the East Asian countries, the developmental state thesis highlights the positive role of the state intervention in markets. In particular, it sees as an essential condition for the East Asian economic miracle the capacity of the autonomous national bureaucrats, which are assumed to be independent of particular economic and social interests, to lead the policy-making process on behalf of the nation as a whole. More specifically, the state's industrial policies have been seen as a crucial means through which the national bureaucrats have been able to guide and discipline firms to play a role in national industrialization.

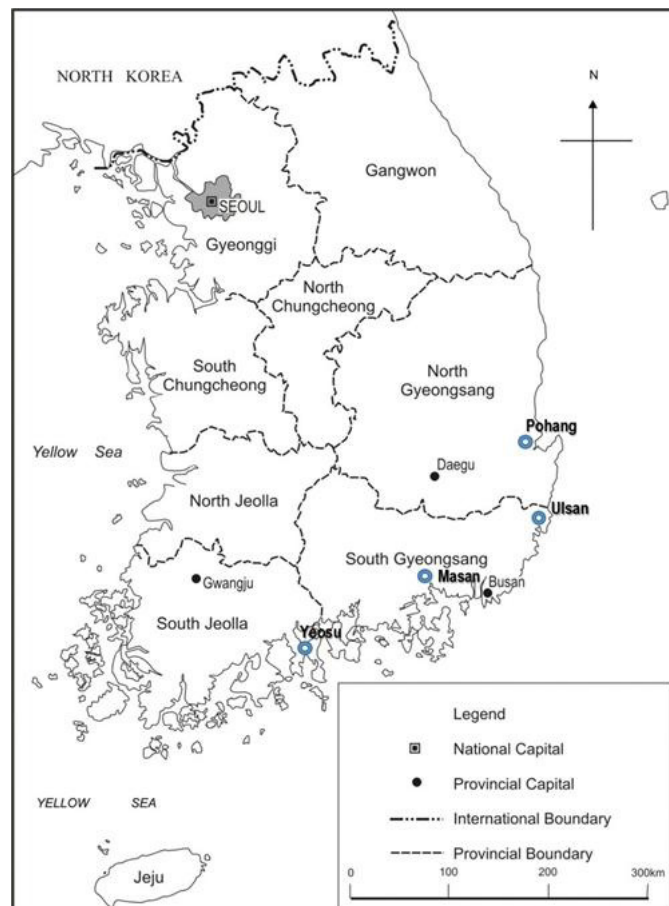
This kind of explanations, however, is not successful in fully understanding the industrial development of East Asian countries because of its limited focus on aspatial features of industrial governance. A better and more nuanced explanation of industrial development requires more serious understandings of the spatial aspects of industrial activities. Industrial activities actually take place at certain locations, and necessarily require the infrastructures facilitating the spatial flows and movements of materials, information, money, and so on. Indeed, constructing industrial complexes was a crucial means that the Korean state utilized to promote national industrialization in the 1960s and the 1970s. Without paying sufficient attention to the spatiality of industrialization, the developmental state thesis may provide a biased view on the Korean industrial development. In particular, its emphasis on the leadership role of the state in national industrialization may not be easily justified, once the complicated socio-spatial processes through which the industrial complexes had been constructed are carefully examined.

With this problem orientation, this paper aims to explore the spatiality of Korean industrial development in the 1960s and the 1970s by focusing on the development of industrial complexes. In contrast to the developmental state thesis, which relies on the neo-Weberian assumption of the state-society separation and the methodological nationalism, this research

borrowing the strategic-relational view to the state, which sees the state actions as an outcome of complex interactions among social forces acting in and through the state, as well as the multi-scalar approach to the political economic processes, in order to search for a theoretical alternative to the developmental state thesis. In particular, we will examine the ways in which the construction of some selected industrial complexes were planned, implemented and materialized through complex and contested interactions among social forces at various geographical scales acting in and through the state.

More specifically, this paper puts its analytical focus on the following issues; 1) the impacts of the local and transnational processes on the industrial complex development and 2) the impacts of the multi-scalar processes of industrial complex development on the state's industrial policies. For this analysis, our empirical study will focus on 4 industrial complexes, which were developed in the 1960s, including 1) Masan Export Processing Zone (hereafter, MAFEZ), 2) Ulsan Industrial Center (hereafter, UIC), 3) Yeosu Industrial Complex (hereafter, YIC), and 4) Pohang Steel Corporation (hereafter, POSCO). These 4 industrial complexes, located in the southeastern coastal regions in South Korea (see Figure 1), have been represented as the main driving motors for the Korean industrialization in the 1960s and the 1970s. This paper will explore the multi-scalar dynamics of Korean industrialization by shedding lights on the developmental processes of these 4 industrial complexes.

**Figure 1. Map of 4 Major Industrial Complexes in the 1960s**





## **2. Transnational and Local Dynamics in the Developmental Processes of Industrial Complexes and Their Impacts on National Industrialization**

Even though the industrial complex development has not been a frequently discussed issue in the literature on the East Asian industrialization, there have been some limited numbers of studies seeing the regional policies and industrial complex development in East Asia from the developmental state perspective (Markusen and Park 1993; Wang 2012). These studies tend to emphasize the autonomous role of the state in the promotion of certain regional policies (e.g. the Comprehensive National Land Development Plan in South Korea, the Southeastern Coastal Belt of Industrial Development in South Korea, the Comprehensive Development Plan of Taiwan, etc.) and industrial complex development in the East Asian rapid industrializing countries like Japan, South Korea and Taiwan. In particular, they highlight that the East Asian developmental states have promoted various regional development policies and the construction of industrial complexes, not under the demands of market or particular social interests, but in order to pursue long-term national interests, such as national industrialization, balanced regional development across the national territory, and so on. In other words, they see the plan rationality of the central bureaucrats as the main driving force behind the regional policies and industrial complex development in the East Asian countries. In addition, these studies suggest that these state-led regional policies have played a crucial role in the rapid economic growth of the East Asian countries.

Challenging the methodological nationalism and the neo-Weberian perspective inherent in this kind of explanations, this paper suggests to see the regional policies and industrial complex development in the East Asian countries not merely driven by the plan rationality of the autonomous national bureaucrats, but as the outcome of complex and contested interactions and negotiations among various multi-scalar forces and actors acting in and through the state. In particular, this paper focuses on the following 3 mechanisms, through which the multi-scalar dynamics might have given impacts on the developmental processes of industrial complex, as well as the whole processes of Korean industrialization in the 1960s and the 1970s.

First, our analysis will examine the ways in which the industrial complex development projects were influenced by the transnational forces and networks, which were developed under the historical and geographical legacies of Japanese colonialism and the East Asian geo-political and geo-economic circumstances. All the major industrial complexes developed in the 1960s and the 1970s were located in the southeastern part of Korea, which is geographically close to Japan. Some may interpret this solely in terms of the economic motivation to take advantage of the geographical proximity to the booming Japanese economy, but we cannot fully understand the geography of the industrial complex development in the 1960s and the 1970s without seriously considering the historical and geographical legacies of the Japanese colonialism. All the places, where the major industrial complexes were constructed, (e.g. Ulsan, Pohang, Masan, Yeosu etc.) were important ports and the locations of major industrial activities during the Japanese colonial period. Thus, these localities had been

better connected to Japan. In particular, many people had migrated from these localities to Japan during the Japanese colonial period, and some did not return to Korea even after the termination of the colonialism to become the Korean-Japanese. In the 1960s, some Korean-Japanese businessmen made significant contributions to the Korean industrialization by connecting the Korean bureaucrats to the Japanese and US firms, providing important market and technological information to the Korean businessmen and bureaucrats, making investment in industries, and so on. Given this, it was more likely that the influences of the Korean-Japanese businessmen were more apparent in these localities. In other words, these localities were better connected to the Japanese economy through the transnational networks of the Korean-Japanese businessmen. Furthermore, these localities were better equipped with infrastructures necessary for industrial development due the legacies of colonial industrialization. In addition to the colonial legacies, the cold war geo-political connections were also quite influential in the developmental processes of industrial complexes in the 1960s and the 1970s. For example, the US military officials played an important brokerage role in connecting the Korean bureaucrats to the US and Japanese investors. By delivering information on some specific interests of the overseas investors, they gave indirect impacts on the Korean government's industrial policies.

Second, we will explore the local impacts on the developmental processes of industrial complexes. In particular, our research will focus on the national-local interactions with regard to the industrial complex development by paying attention to the ways in which the activities of local actors and place-specific socio-political conditions gave impacts on the Korean government's policies for industrial complex development in the 1960s and the 1970s. Since the establishment of highly centralized governing system in the early 1960s, the activities of local actors had been greatly discouraged, especially with respect to the developmental projects promoted by the central government. Thus, the impacts of the local forces were not very strong in the 1960s and the 1970s. Even so, however, there were various kinds of local activities through which the place-dependent actors in different localities attempted to influence the central government's policies for the sake of their local interests. The developmental processes of industrial complexes were also one of the major targets for the local activities. In particular, local forces were very active in the efforts to attract industrial complexes into their localities and to bring more financial and institutional support from the central government to the local industrial activities. These activities gave impacts on the location of industrial complexes and the ways in which industrial activities were organized in certain industrial complexes.

Third, this paper will analyze the impacts of the developmental processes of industrial complex on the state's industrial policies and the subsequent processes of Korean industrialization in the 1960s and the 1970s. Even though relatively autonomous national bureaucrats set up certain industrial policies on the basis of their plan rationality, the policies might have been still more or less abstract, unspecific and ambiguous before they were actually implemented. The developmental processes of industrial complex

were a significant part of the actual implementation of the industrial policies. Through the concrete processes of industrial complex development, the material and discursive interactions and contestations might have taken place among various social forces at multiple geographical scales with regard to the directions of the state policies' on industrial development, and the national bureaucrats' initial – and more or less abstract – thoughts on industrial policies might have been concretized, contested, re-shaped or even cancelled.

### 3. Case Studies on the Developmental Processes of Industrial Complexes in the 1960s

#### 1) Masan Export Processing Zone (MAFEZ)

The MAFEZ is the first export processing zone in South Korea, located in the city of Masan, a major port city in the southeastern part of Korea. Since it is a specifically designated industrial area for the purpose of attracting direct investment of foreign firms, the Korean government has provided various government subsidies such as tax breaks, exemptions from import tariffs, free land, and infrastructure (utilities, transport facilities, and buildings at subsidized rates). The state has also guaranteed overseas remittance of profits and dividends drawn from sale of stocks, principal, and commissions, which are possessed by foreign investors (Lee, Y-S. 1993, 342). The construction of MAFEZ started in May 1970, following the enactment of the Act on the Establishment of Free Export Zone in January 1970. MAFEZ played a crucial role in the industrialization and the improvement in export of South Korea in the 1970s. For example, the export volume of the MAFEZ rapidly increased from US \$856,000 in 1971 to US \$628.1 million in 1980 (Lee, S-C. 2008, 83), which accounted for 3.6% of the national total export volume (US \$17,510 million) in the same year.

Figure 2. Location of MAFEZ



Why did the Korean government decide to construct the MAFEZ? One of the main characters of the so-called “Korean development model” in the 1970s and the 1980s, which has been widely advertized mostly in the developmental state literature, was the state’s efforts to promote national champions through heavy-handed financial sector manipulation and the industrial policies aiming at protecting domestic markets for strategically selected key industries. In relation to this, it has been widely highlighted in the literature of Korean development that in order to gain the necessary foreign investment, the Korean government put higher priority on borrowing foreign loans from international financial institutions, rather than attracting direct investment of foreign firms. As a result, even though the Korean government has constructed many industrial complexes as a way of promoting national industrialization, foreign firms were not allowed to build their plants in almost all the industrial complexes without forming a joint venture with the Korean domestic firms. The MAFEZ, however, is an exceptional case, where only foreign firms have been allowed to do their businesses. In this sense, the MAFEZ is a very unique kind of industrial complex. Given this, one might raise the following questions again: why and under what conditions did the Korean government develop this particular kind of industrial complex? Why and how did they decide to locate it in Masan?

One of the answers to these questions highlights the role of businesses in the policy-making processes of export processing zones. According to Kim (2003), the initial idea on the export processing zone had been proposed by business organizations like the Federation of Korean Industries (hereafter, FKI). In 1967, several FKI member businessmen organized a research group and made several visits to industrial cities in Europe, Africa, Latin American and the Asia-Pacific region in order to survey economic realities of different countries and regions. Highly impressed by the success of the export processing zone in Kaohsiung, Taiwan and the free port of Hong Kong, this research group initiated the idea of developing special free economic zones in the coastal areas. Finally, in a government-led meeting aiming at discussing ways to improve export, held in January 1969, the President of the FKI made a proposal to Park Chung-Hee, the President of ROK at that time, to develop special free economic zones in the coastal areas as a way of improving export. Becoming interested in the proposal, the President Park asked the FKI to submit a more detailed proposal for the free economic zone (Lee, S-C. 2008, 54). Following the meeting, the FKI set up an “Expert Committee on the Construction of Free Zone” with the support of the government and submitted a couple of more detailed proposals to the government. Finally, the government approved the construction of export processing zones in July 1969, and the “Promotion Committee for the Establishment of Export Processing Zone” chose Masan as the location of the first export processing zone in 5 August 1969.

On the other hand, some emphasize the role of the state. In particular, Lee, S-C. (2008) argues that the Korean government was the main actor in the promotion of the MAFEZ plan, even though the idea on the export processing zone had been initiated by the



FKI. Also, he sees the construction of MAFEZ as a response of the Korean state to the economic crisis of the late 1960s stemming from the structural problems of an economic system heavily relying on foreign loans and the end of financial support from the USA. The export-oriented industrialization in the 1960s was heavily reliant on commercial foreign loans from international financial institutions. The foreign loans were the main source of investment necessary for industrial activities in the 1960s. Lots of Korean firms were able to borrow commercial loans from international financial institutions on the basis of the guarantees of the Korean government. With the loans, they expanded their industrial activities, but by the late 1960s, many of them turned out to be very poorly performing. Also, the foreign loans needed to be redeemed from the late 1960s. As a result, South Korea faced a crisis of loan-dependent economy in the late 1960s. Furthermore, the financial aid from the USA, which had been very important for the Korean economy in the post-Korean War period, was scheduled to be finished in the early 1970s. Given these situations, the Korean government saw the attraction of foreign direct investment as an alternative source for foreign investment. In this context, the development of export processing zones, which could facilitate the attraction of foreign direct investment, can be seen as a very rational policy choice of the Korean bureaucrats to overcome the crisis of loan-dependent economy in the late 1960s (Lee, S-C. 2008).

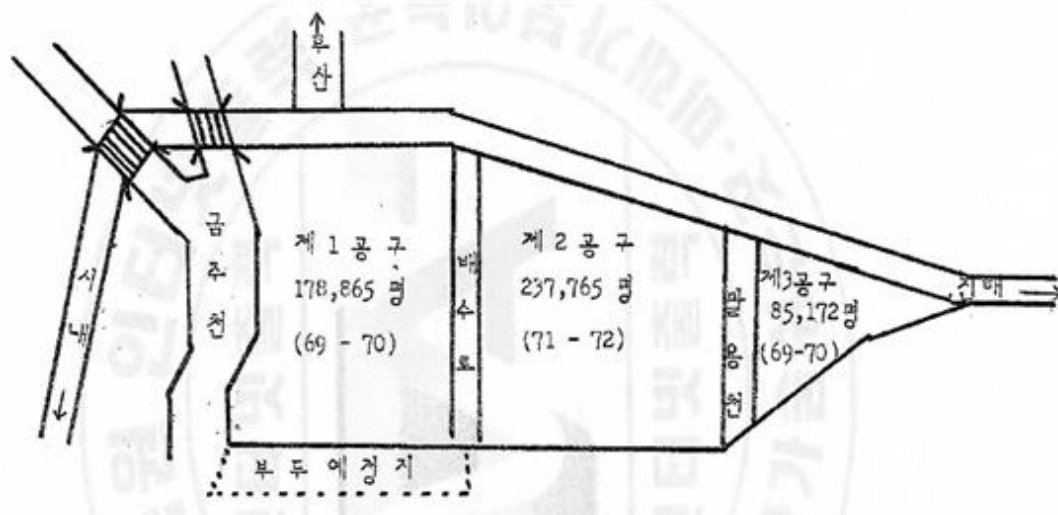
Regardless of who was the main actor in the implementation of the MAFEZ project, these explanations are limited in answering why and how the Korean government developed the export processing zone due to their exclusive focus on the national-scale actors and processes. Transnational and local actors and processes have not been sufficiently addressed in these explanations. In order to show the significance of local processes more clearly, it will be more carefully explored why the export processing zone was located in Masan.

According to various government documents on the MAFEZ, locating the export processing zone in Masan was a very reasonable choice because of several good locational advantages of Masan, such as the geographical proximity to Japan and Busan, the second largest city of South Korea, abundant water resources from Nakdong river, spacious developable land, nice and warm weather, etc. In particular, the geographical proximity to Japan has been seen as the most important factor justifying the location of the MAFEZ. In other words, Masan has been represented as the natural site for the export processing zone, and the location of the MAFEZ itself has been described as if it reflects the plan rationality of the Korean developmental state. According to Kim (2003), however, various locational options (e.g. Yeosu, Masan, Gimhae, Mokpo, Gunsan, etc.) had been seriously considered before the final choice of Masan as the site for the export processing zone in August 1969. Even in July 1969, just one month before the final locational decision, it was reported in a newspaper article that Yeosu, a port city in the southwestern part of Korea, was more strongly considered as the site for export processing zone (Dong-A Daily, 3 July 1969). What made this situation changed so suddenly and Masan chosen as the location of the export processing zone?



In answering this question, we need to pay attention to the historical fact that since 1967, the City of Masan had been trying to construct a local industrial complex in the same site, where the MAFEZ was actually located in 1969. Lee, S-C. (2008) sees this as one of the key factors for the selection of Masan as the site for the export processing zone. According to him (Lee, S-C. 2008), when the Korean government was still searching for the location of the export processing zone in June 1969, the Ministry of Commerce and Industry recommended Masan as the site for the export processing zone because locating the export processing zone in the site, where the local industrial complex had been constructed in Masan, would greatly save the time and costs for the construction of the export processing zone. By pointing out this, Lee, S-C. (2008) argues that the role of the state was more important in the development of the MAFEZ than the initiation of the FKI.

**Figure 3. A Planning Map for the Local Industrial Complex made by the City of Masan in 1967**



This explanation, however, is limited in addressing the role of local and transnational forces in the development of the MAFEZ. In the 1960s and the 1970s, it was very unusual in South Korea that the construction of an industrial complex was promoted by a local government. If so, why and how did the City of Masan attempt to construct an industrial complex by itself? Answering this question is crucial in explaining the location decision of the export processing zone in Masan. In order to answer this question, we need to understand the local conditions under which various local actors were very active in the promotion of local industrialization in the 1960s.

Two local conditions were important. First, Masan was one of the most industrialized cities in Korea during the Japanese colonial period under the influences of colonial industrialization. At the end of the 19th century, one of the first Japanese-leased territories in Korea was established in Masan, and after the Japanese annexation of Korea, Masan became one of the most favorite destinations of the Japanese immigrants to Korea. On the basis of its coastal location with the geographical proximity to Japan and Busan,

a major port in Korea, Masan had been rapidly industrialized during the Japanese colonial period, and became a major economic center of the southeastern part of Korea. In addition, the Korean War provided another momentum for Masan's economic growth. While economic activities and industrial facilities in most cities and localities in Korea were seriously damaged by the war activities during the Korean War, Masan was not influenced by the war due to its location and the industrial facilities in Masan were much less damaged during the Korean war period. Furthermore, as Masan served as a major site for the military supply bases, its economic significance became much bigger. In the 1950s, the number of firms rapidly increased in such industrial sectors as ship-building, metal, machinery, textile, food, etc.

As the local economic base of Masan became bigger, various kinds of place-dependent actors emerged. For example, the local Japanese businesses in Masan established a chamber of commerce in the early 1900s, which was the first chamber of commerce in Korea. Since then, local businesses in Masan had been quite active in the attempts to protect or enhance their place-dependent interests. The presence of these local actors gave impacts on the local community of Masan in two different ways. On the one hand, the local government officials became more entrepreneurial under the influences of these business-oriented local actors. As a result, the City of Masan was much more active in its effort to attract inward investment to Masan, compared to other local governments. An outcome was the attraction of Hanil Synthetic Fiber, the first manufacturer in Korea to produce acrylic fiber and the biggest textile company in the 1960s and the 1970s, to Masan in 1967. On the other hand, the local actors in Masan were very aggressive in the activities aiming at attracting the financial and institutional supports from the central government to the local economic and industrial activities, especially as the Park Chung-Hee regime ambitiously promoted various developmental projects for national industrialization in the 1960s. They were not shy in mobilizing the power of politicians and bureaucrats, who were influential in the central government's decision-making. Those originated from the Masan area were the main target of their political lobbying.

Second, the Korean-Japanese businessmen played a very important role in the regional development of Masan in the 1960s. In the 1960s, the Korean government began to actively attract the investment of the Korean-Japanese businessmen, and in return, many Korean-Japanese businessmen showed their willingness to do business in Korea. One of them was Sonn Dal-Won, the CEO of Shin Nippon Koki. Since 1961, when Park Chung-Hee came to the power through the military coup in 16 May, he had developed intimate relationship with various higher-level officials and businessmen in order to search for good business opportunities in Korea. In particular, he was able to gain positive attention from various important figures in Korea by proposing a specified blueprint for the development of machinery industry in a meeting for discussing the ways for the development of Korean manufacturing, which was held in 1962 under the urgent call from Park Chung-Hee. Following this, he decided to make an investment in Masan and began to set up a plan for the construction of a big machine factory in Masan. His actual investment in Masan, however, had been delayed until the diplomatic relationship between Korea and Japan was normalized

in 1965. In addition to the normalization of the Korea-Japan diplomatic relationship, the Masan Port Development Plan began to be implemented from the mid-1960s. Given this, Masan became an attractive destination for the investment from Japan, and various Korean-Japanese and Japanese businessmen began to make investment in Masan after 1965. At the same time, the local businesses and chamber of commerce in Masan organized various activities to support the Sonn Dal-Won's plan for the construction of a comprehensive machine manufacturing factory in Masan, and Sonn also reacted with a massive amount of investment in Masan. This locally based industrial development plan was accepted by the Economic Planning Board in the central government, and the construction plan for the comprehensive machine manufacturing plant became one of the main projects for the national industrialization in the 2nd 5 Year's Planning of Economic Development announced in 1965.

This machine factory construction plan was deeply related to the construction of a local industrial complex in the site, where the MAFEZ was located in 1969. It seemed that the machine factory was planned to be located in the industrial complex. Excited by the inflows of investment, the City of Masan decided to construct a local industrial complex, where the booming industrial activities could be located. Regarding this, we need to know the activities of another Korean-Japanese businessman, whose name was Lee Myeong-Jo. With investment and construction facilities from Japan, he became in charge of the reclamation of land, where the local industrial complex was planned to be constructed. The reclamation project, however, was not completed because the Lee Myeong-Jo's company got bankrupted. The unfinished land reclamation project caused a big financial problem to the City of Masan. In order to solve this problem, the City of Masan asked the central government financial and institutional supports for the land reclamation and the industrial complex construction project. In doing so, the place-dependent actors in Masan organized the politics of scale to mobilize the power of some national actors. At that time, one of the most powerful political figures in the central government was originated from Masan, whose name was Park Jong-Kyu. Since 1964, he had served as the director of the Presidential Security Service for about 10 years. According to some local people whom we interviewed in Masan, many Masan people have believed that Park Jong-Kyu was influential in the location decision of the MAFEZ, and he was in a quite intimate relationship with Lee Myeong-Jo. Given all these circumstances, it could be reasonably inferred that Park Jong-Kyu gave impacts on the location decision of the export processing zone in Masan in order to help the financially troubled local actors in Masan (including Lee Myeong-Jo). In other words, Park Jong-Kyu served as an important multi-scalar agent by connecting the local actors in Masan to the national policy-makers.

## 2) Ulsan Industrial Center (UIC)

The UIC is the first industrial complex which was originally designed for attaining the goal of the import substitution industrialization strategy. The first step for the

development of UIC was the inward foreign investment in the petrochemical industry. A series of institutional buildings were created very urgently in order to facilitate the early stage investment from the U.S. oil companies, such as Gulf Oil, Standard Oil, and Texaco. Before the construction of the UIC was undertaken, a special law was enacted on 20 January 1962 in order to make it easy the expropriation of private land for the construction of industrial complexes. On 27 January 1962, only a week after the enactment of the law, Ulsan was designated as a special industrial complex (Gimm 2013, 1156). During the years of the first Five-Year's Economic Development Plan, the UIC got the 7.7% of total investment made by the Korean government, which was the equivalent to 24.8% of total mining and manufacturing investment. The UIC has been holding an unchallenged position in the manufacturing production of South Korea since it had been constructed in 1964. The total amount of production of the UIC was about US\$68 billion in 2006, which accounted for 8.05% of the GDP in the same year.

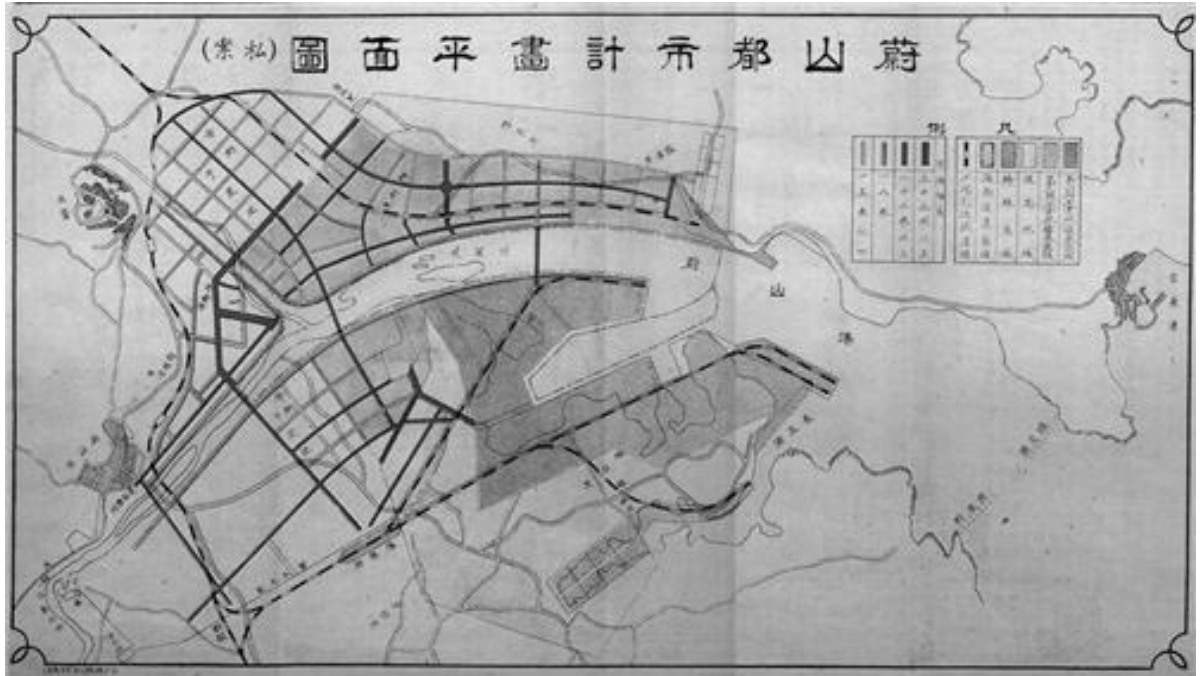
The construction of the UIC was one of the first state actions, which were conducted under the name of national industrialization immediately after Park Chung-Hee took over the power through the military coup. Thus, it has been often represented as a symbolic event reflecting the state's mercantilist policies and technocratic rationality. Once the developmental processes are more thoroughly examined, we can recognize that the developmental processes of the UIC were fully of mysteries. In particular, the location decision of the UIC cannot be easily explained if we see the UIC construction only in terms of the plan rationality of the autonomous national bureaucrats. In the official government documents, the location of UIC has been justified merely in terms of the physiographic features of the Ulsan area. However, the field research for the location decision was taken only for a week from 7 to 14 January in 1962. What made it possible for the Korean government to finish up the location evaluation only for a week? The only reasonable hypothesis would be that the development plan for an industrial complex in the Ulsan area had been already made and the validity of the plan was unquestionable (see Han, 2011: 23-4).

Here, we need to pay attention to the historical origin of the UIC project. Ulsan development plan has a long history dating back to early 1940s. The Japanese colonial government, which then needed a supply base for oil refining, chose Ulsan as the most suitable site for oil refineries. One of the Japanese engineers, Ikeda Sadao, had made a plan for building the Ulsan industrial zone with an area of 9.91km<sup>2</sup> and a population of 500,000 people in the area, which was later designated as the site for the UIC in 1962. According to this plan, the Japanese government bought the whole site including later reclaimed land area through the hands of the Oriental Development Company (ODC), which was established by the Japanese colonial government as one of the colonial exploitation institutions. After acquiring the site, Ikeda and the ODC began to move the oil refineries, which had been already located in the northern part of the Korean peninsula, to the Ulsan area during the Pacific war. Accordingly, harbor facilities and railroad lines were newly constructed across the port area of Ulsan, which is the original version of the Ulsan plan. The plan for the UIC in 1962 was almost identical with its colonial version and could be possibly constructed only on the basis



of the infrastructures constructed during the colonial period. In other words, the plan rationality of the Korean national bureaucrats alone cannot explain the construction of the UIC, and the legacies of the colonial industrialization need to be more seriously examined.

**Figure 4. The Land Use Planning of Ulsan made by the Japanese Government in 1943**



**Figure 5. The Land Use Planning of Ulsan made by the Korean Government in 1962**





One more thing we need to consider is the geo-political context, under which the Park Chung-Hee regime had to hastily seek for a relevant site for the industrial park and made the decision to locate it in Ulsan. In 1962, the first Five Years' Economic Development Plan started with a list of chemical industrial plants to be constructed. After the military coup in 1961, the military junta accused many entrepreneurs of amassing wealth unlawfully, and instead of punishing them, the Park Chung-Hee regime selected 13 entrepreneurs and asked them to cooperate with the regime for the national economic growth. In return, the selected entrepreneurs organized the Council for Promotion of Economic Reconstruction and sent out two research teams to overseas – one to the USA and the other to the western Europe – in order to survey the international economic circumstances and look for new business opportunities. The research team dispatched to the USA met James Van Fleet, the former commander of the 8th U.S. Army during the Korean War, who strongly supported the legitimacy of the Park Chung-Hee regime. He arranged for the Korean research team to meet the investors of U.S. major oil companies. While talking about the investment possibilities in the Korean oil refining industries, the US investors pointed out as pre-conditions for their investment a concrete site for the factories and associated infrastructures, such as electricity, water, port and transportation facilities on the occasion (Kim, 2012). In order to attract the 'Van Fleet Delegation', the Korean government hurriedly announced the construction of the UIC. In this situation, the construction plan for the Ulsan industrial zone, which had been already made by the Japanese colonial government in the 1940s, was warmly accepted by the Korean government. Finally, the Gulf Oil Company decided to invest to the UIC, and the history of South Korean petrochemical industry began.

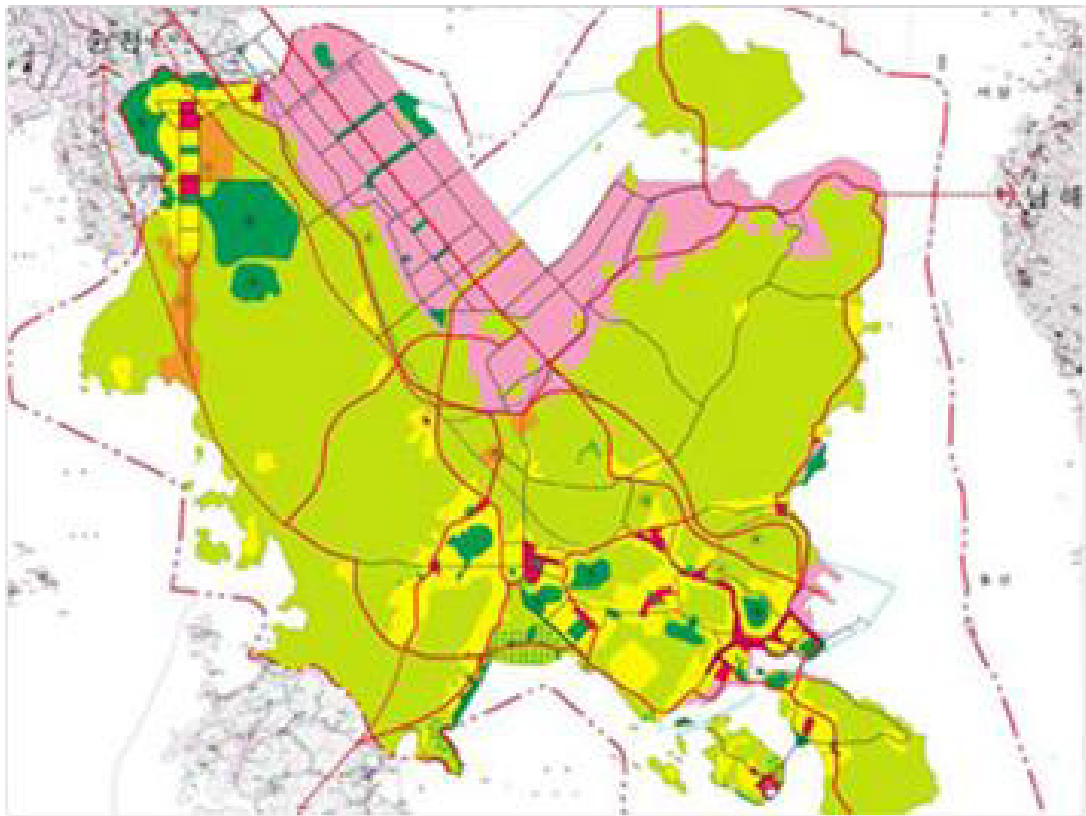
The role of multi-scalar agents was not salient in the case of the UIC, but if we specifically examine the processes of location decision or plan implementation, we cannot simply overlook the influences of multi-scalar agents. The above-mentioned entrepreneurs founded the Korean Industries Association, which became later the Federation of Korean Industries, and served as 'mercantilist assistants' to the Korean government (Gimm, 2013; Kwon, 2006). They provided the Korean government with the information that was very important for the actual industrial activities – in particular, the information on the industrial spaces – and with the chance to be connected to overseas investors on the basis of their international networks. At the same time, however, they were local actors having strong place-based interests in the Ulsan area in the sense that they had already built a number of plants in Ulsan (Lee, 2008). They were literally landlords themselves in Ulsan. Given this, it could be easily inferred that these entrepreneurs positively evaluated Ulsan as a site for industrial complex when they provided information on industrial spaces to the government. In this sense, these entrepreneurs, which had place-dependent interests in their properties in Ulsan with strong connections to the national government and overseas capital, played the role of multi-scalar agents in the construction of UIC.

### 3) Yeosu Industrial Complex (YIC)

The YIC was planned as the second petrochemical industrial complex following the UIC and

constructed in 1967. After the UIC got in the saddle, the government recognized the necessity for the extra capacity of oil refinery and grappled with the problem whether to enlarge the capacity of UIC or to build a new industrial complex elsewhere. Developing the YIC was the answer of the Korean government. One of the goals for the 2nd Five Year's Economic Development Plan, which started in 1967, was the development of the petro chemical industry. Under this goal, the construction of the YIC, the largest industrial complex in Korea, started in 1967 with the establishment of the Honam Refining Corporation on a site of 23,641,000m<sup>2</sup> across Yeosu bay area. There were 222 resident companies in the Yeosu Industrial Complex as of April 2008, employing 13,728 workers (GFEZ, 2008). The total production of the industrial park was about \$42.7 billion in 2006, which accounted for 5.02% of the GDP in the same year (ibid.).

**Figure 6. Land Use Planning of Yeosu (Yeosu Industrial Complex: the pink area on the map)**



The purpose of constructing the YIC was relatively clear. According to a government commissioned research, the capacity of the Ulsan refineries reached the limit and thus the construction of additional oil refineries became an unavoidable task to the authorities concerned. The key question to be taken was how to secure additional capacity. Regarding this, two different opinions arose and had a clash. On the one hand, the Economic Planning Board claimed that the government should supply the additional volume by constructing refineries in a separate site from Ulsan. On the other hand, the Ministry of Trade and Industry proposed to add and secure the necessary capacity within the site of the UIC. Loud disagreements ensued as one department overturned the official announcement made by the other side in the following day (cf. Dong-A daily,

24 November 1965; 25 November 1965).

This clash was deeply related to the difference in industrial policies between the two government bodies. The Economic Planning Board's plan for constructing the oil refineries in the site separated from Ulsan meant that the government needed to smash the monopoly of domestic oil market by the Gulf Oil and to introduce competition to the market. On the contrary, the Ministry of Trade and Industry's proposal for expanding the oil refining facilities in the UIC meant that the oil refining industry needed to pursue the economies of scale in the existing site. The outcome of this clash was the victory for the Economic Planning Board because, as well documented by Gimm (2013, 1154), the Board had, along with the jurisdictional authority over budget planning, various policy tools by which to intervene in the financial market, such as supporting export, reforming interest rates and guaranteeing foreign loans. As a result, the Korean government allowed another US oil company, that is, Caltex, to enter into the Korean oil refining market. With an agreement with Caltex on joint venture investment in December 1966, the Honam Refining Corporation was established in May 1967. From this story, it can be reasonably inferred that the competing interests of the US multinational corporations might have played a role in initiating or facilitating the clashes between the two bodies in the Korean government. In this sense, the impacts of the transnational forces can be clearly shown in the case of the YIC construction.

There is another interesting question. Why did the Korean government decide to locate the another oil refining facilities in Yeosu? When the Korean government was looking for a site for the new oil refineries in the mid-1960s, the site originally examined in 1965 was Bi-In located in the South Chungcheong province (Kyunghyang Daily, 9 July 1965). However, the rise of regionalist campaigns in the Honam (a historical name for the region including both South and North Jeolla provinces) region in the mid-1960s gave significant impacts on the location decision of the new oil refining factories.

The emergence of regionalist politics in the Honam region was related to local political responses to uneven regional development that was conditioned by the spatial selectivity of the Korean developmental state. The accumulation strategy pursued by the Park Chung-Hee regime in the early 1960s focused on export-led industrialization based on the development of labor-intensive industries such as textiles, clothes, shoes, plywood and wigs. This export-led industrialization policy exhibited a degree of spatial selectivity. The government provided substantial financial and institutional support to the labor-intensive export industries; hence, regions that had a high concentration of these industries enjoyed the benefits of the industrialization process (Cho, 1991). Thus, the export-oriented industrialization strategy facilitated the development of the more urbanized and already industrialized regions such as Seoul and the southeast.

When the Park Chung-Hee regime ambitiously initiated the national modernization project after taking over power through its military coup in 1961, local actors in the Honam region considered the start of the industrialization project the opening of a new window for local

industrial development. With high expectation, they organized diverse political activities to promote local economic growth. For example, local capitalists in the southwest tried to build an automobile company, named Asia Auto Company. Initiated by the Gwangju Chamber of Commerce, these capitalists organized the Promoting Committee for the Construction of Asia Automobile Plant in the Southwest in 1962 (Chung, 1991). The main task of this committee was to mobilize the power of the central government on their behalf. Locally elected representatives in the national parliament were very active in lobbying support from central government officials for this project.

The spatial selectivity of the Korean state, however, was not favorable for these activities. Furthermore, the Park Chung-Hee regime, which was dominated by those originated from the southeastern part of Korea, was not supportive of the projects pursued by the southwesterners. As a result, the southwesterners began to feel alienated from the processes of national economic growth. This sentiment was well expressed in the editorials of some local newspapers. For example, on October 25 1964, Jonnam Daily News, a local newspaper in South Jolla, had an editorial entitled “South Jolla Gets Cold Treatment.” In addition, in April 1966, Jonbuk Daily, a local newspaper in North Jolla, published a letter from its chief editor to President Park (Yang, 1968). In this letter, the editor argued that the southwest had been badly treated by the central government, on the grounds that: (1) the southwest had been neglected in the allocation of the government’s economic development projects; (2) most of the people with modest jobs in Seoul came from the southwest; and (3) there were very few southwesterners among high-ranking government officials.

Agitated by the feeling of alienation and regionalist sentiments, the politics of local economic development was organized more strongly in the Honam region. In the mid-1960s, there were local efforts to upgrade local industries by locating intermediate goods and capital-intensive industries in the southwest. At that time, the central government decided to develop a new oil refining industrial complex in the site separated from the UIC, and it was searching for the site. In order to take advantage of this opportunity, in May 1965, Gwangju Chamber of Commerce urged the national government to build an integrated chemical plant in South Jeolla. In July 1965, the South Jeolla Promotion Committee for Inducement of Basic Industries was organized. This was composed of the Gwangju Chamber of Commerce, the Governor of South Jeolla, the Mayor of Gwangju City, and representatives from local banks and businesses. Upon the request of this committee, ruling party members of parliament from the southwest called on the Prime Minister to urge the government to locate some key industries in the southwest. In support of these political activities, all the district offices of the ruling party in South Jeolla collectively sent a recommendation letter to the central office, to build an oil refinery in the region in October 1965 (Park 2003, 50). Given this context, and approaching to the upcoming presidential election to be held in 1967, the Park Chung-Hee regime made 3 promises; 1) the construction of Gwangju Industrial Complex, 2) the development of the 2nd oil refining plant in the site of Yeosu, and 3) the development of the Yeongsan

River basin (see Figure 7) in 1966.

**Figure 7. Map of South Jeolla**



In August 1966, the South Jeolla Campaign Committee to Correct the Raw Deal (hereafter SJCCCRD), which was the main organization led by the regionalist campaign groups, announced a resolution with the following three clauses (Kyunghyang Daily, 22 August 1966); 1) to urge the central government the implementation of the 3 promised initiatives, 2) to urge the formation of a coalition of National Assembly members from South Jeolla, and 3) to rally all residents of the province to eradicate regional discrimination. This movement was strong and vigorous enough to crack the hegemony of Park's regime and successful to confirm the location of oil refinery facilities into Yeosu (Gimm 2013). The influence of the Honam regionalist campaign on the location decision of the new oil refineries was well reflected in the name of the newly established oil refining company, which was named as "Honam Refining Corporation". The original name of the company was "Lucky Refining Corporation", following the name of the local investing company "Lucky". However, In-Hoe Gu, the founder of Lucky, detected the change of atmosphere in the political realm, and changed the name on the bid document into Honam to command support from Park Chung-Hee and the ruling party. In sum, it can be argued that the location decision of the YIC was deeply influenced by multidimensional influences of the Honam regionalist movement.



#### 4) Pohang Steel Corporation (POSCO)

POSCO, which was established in 1968 in Pohang, is the first integrated steel company in Korea. In order to raise steel industry as a basis of industrialization, the Korean government propelled the plan for building an integrated steel company by inviting foreign funds and technology since the early 1960s. POSCO built its integrated mass-production system in 1973 and produced 1 million tons of steel per year at that time. And now it produces 16.5 million tons of steel. On the basis of the construction of POSCO, the Korean economy was able to escape from the light industry-oriented industrialization strategy by consolidating foundations for raising the heavy industries such as automobile industry, defense industry etc. from the 1970s. In addition, it enabled the Korean government to pursue a self-reliant defense politically and militarily.

**Figure 8. Location of POSCO in the Pohang Area**



Compared to the cases of other industrial complexes, the role of the central government was more important in the developmental processes of POSCO. Even so, however, it does not mean that the local and transnational actors were non-existent in the

POSCO construction case. The role of local actors can be the most vividly shown in the decision-making processes of the location of the integrated steel company. As the Korean government began to conduct a field-study in order to search for the location of the integrated steel company from 1965, serious competitions erupted among several candidate cities. Five regions, such as Wolpo (near Pohang), Pohang, Samcheonpo, Ulsan, and Bosung, were finally chosen as candidate sites for the steel company. Every local community waged heated competitions. Especially, during the presidential election in April and the general election in May 1967, all the parliamentary candidates of those cities pledged themselves to bring the steel company into their localities, and the inter-local competition became much more intense. Despite the intense inter-local competition and the actions of various local actors in different localities, the central government was not much influenced by the local demands in its choice of the site for the steel company. The central government unilaterally decided to locate the integrated steel company in the Pohang region.

Before the location decision was not made, local actors in Pohang were also quite active in the competition for the integrated steel company. The local merchants and industrialists in Pohang came together by means of local chamber of commerce and industry. In February 1967 they organized the “Local Association for Inviting an Integrated Steel Factory” under the leadership of the local chamber of commerce and industry and the former mayor and so on. The association received a covenant to urge to invite the steel company from about 500,000 citizens in Pohang and declared their united volition. Also they tried to transfer their will to the central government via personal networks and petitions, etc.

These local activities, however, were little effective in the attraction of the steel company into the Pohang region. First, local merchants and industrialists were active in these politics, but most of citizens were indifferent to it. Second, their informal networks to central government based on the personal acquaintances were difficult to be transformed to official ones to make powerful influences in policy-making. Furthermore, as local government did not operate as a communication channel between the central government and local community, but served only as a central government’s beck and call, it was difficult for the local actors in Pohang to virtually develop formal networks to the central government. The centralized power structure of the Korean state made it more difficult for the local actors in Pohang to give impacts on the decision-making processes of the central government.

Compared to the local forces, the transnational forces and processes made more significant impacts on the developmental processes of POSCO. The steel manufacturing is a central nucleus of the national industrialization. Thus, there had been constant efforts to build modern steel companies in Korea since the Japanese colonial period, but all the efforts had failed due to the shortage of funds and technology (POSCO 1989: 92-93; Lee 2004). The Park Chung-Hee regime also strongly promoted the development of an integrated steel company as a cornerstone of the 1st Five-Year’s Plan for Economic Development in the early 1960s, but this effort was also frustrated by failures of fund raising (Lee 2004: 219-220; Oh 1996: 235-242). Given this, the Korean government needed to search for the imports of

foreign loans and technology in order to succeed in its POSCO development project. As a result, transnational cooperation and networking became crucial in the success of the POSCO project.

The Korean government, however, faced some difficulties in gaining the necessary support from its international allies. In particular, the USA government was not supportive of the POSCO project for an international political reason. In order to decrease its direct intervention in the East Asian affairs and to consolidate the East Asian anti-communist bloc, the American government wanted to construct a new regional cooperation system in which Japan could lead other neighboring countries. As a part of this plan, USA tried to incorporate Korea, which newly settled down as an East Asian full-fledged anti-communist country on the basis of its rapid economic growth, into this system through the Korea-Japan diplomatic normalization accord. In this context, USA did not want Korea to pursue an independent economic growth model, which could reduce the Korean motivation to be a part of the USA-led East Asian cooperation system. Thus, USA consistently opposed to the Korean government's attempts to develop steel and heavy industries, which were necessary for driving the long-term national industrialization and growing its defense industries. Instead, the American government suggested the Korean government to put its priority on infrastructure investment such as energy, transportation and communication and to develop a good relationship with Japan (Lee 1995; 2006; Ryu 2002; USA 1961-1963).

Despite the oppositions from the USA government, the Korean government held stick to its policy to raise steel industry and devoted itself to attract the necessary financial and technological supports from the American and European steel companies (POSCO 1989; Suh 2011). Finally, it was able to organize the Korea International Steel Associates (KISA) with the major support from Koppers, an American steel company, in August 1966, and made a tentative contract with KISA for the investment in the integrated steel company project in 1967. In response to this situation, the American government asked several international financial institutions to stop providing loans to Korea and mobilized the international organizations like UNDP, IBRD, and USAID to publish negative reports on the Korean government's steel company project (POSCO 1989; Oh 1999: 126-127). These negative reports were main obstacles in attracting foreign investments. As a result, the agreement between the Korean government and KISA was finally nullified in May 1969.

Unlike the American government, however, the Japanese government and business sector were more supportive of the Korean government's steel company project (Ryu 2011, 269-272). Even though Japan generally admitted the American foreign policy of constructing a new regional cooperation system in East Asia, Japan was trying to develop new markets for the Japanese businesses in East Asia and hence was active in building a new international division of labor between Japan and Korea. In particular, the Japanese

business sector wanted to export massive plant equipments (e.g. the integrated steelworks) to Korea (白川透一郎, 1966; 赤澤璋一, 1991). As soon as the KISA was disorganized due to the systematic opposition from the US government, Japan was in a hurry to participate in the Korean government's steel company project. Some Japanese businesses, however, were worried about the possibility of increasing competition with the Korean steel company in the international steel market, as well as the risks of massive investment. This was a critical moment for the Korean government because there would not be another chance for the development of steel industry if the Japanese side would refuse to participate in the Korean government's steel company project. Given this, the Korean government reluctantly decided to utilize the Japanese reparation for its colonial rule of Korea in order to find a way to persuade the Japanese businesses to take part in its steel company project. This solution was quite persuasive to the Japanese businesses because they did not need to make additional investment. With this idea, the Korean government was able to make an agreement with the Japanese government on the cooperation for the development of the integrated steel company in Korea in 1969 (POSCO 1969: 139-156). Also, the Korean government was able to attract additional foreign investment and technologies necessary for the development of the steel company by taking advantage of the international networks developed by the Japanese actors.

In sum, while there were little local impacts on the developmental processes of POSCO, the transnational processes and forces were more influential. The Korean government's POSCO project had to go through various difficulties and obstacles such as the opposition from the US government and the negative evaluations from the international organizations. At the same time, however, the Japanese government and businesses were much less critical of the Korean government's plan due to its own interests. In order to attract the support from the Japanese side, the Korean government decided to utilize the Japanese reparations for the construction of POSCO. In the case of POSCO development, the national-transnational interactions were an essential part of the multi-scalar dynamics.

#### **4. Conclusion**

As shown in our 4 case studies, the developmental processes of these industrial complexes cannot be explained solely in terms of the plan rationality of the autonomous national bureaucrats. There were complicated multi-scalar dynamics in the processes through which the industrial complexes were planned, located and actually constructed. In particular, the multi-scalar dynamics can be summarized as follows. First, the developmental processes of the Korean industrial complexes in the 1960s were significantly influenced by the transnational forces and processes, such as the legacies of the Japanese colonial industrialization (e.g. the role of the Korean-Japanese businesses in the developmental processes of industrial complexes, the Korea-Japan human connections, the Korea-Japan knowledge flows on the industrial spaces in Korea, etc.) and the cold war geo-political contexts in East Asia (e.g. the influences of the US foreign policies, the USA-Japan-Korea elite connections, the influences of the US and Japanese investors on the Korean industrial policies, etc.). Second, the

industrial complex construction was also influenced by the following local conditions; the geographies of colonial industrialization, the efforts of local actors aiming at influencing the industrial and regional policies of the central government, the role of multi-scalar agents in connecting the local and national forces, etc.

On the basis of this research, we argue that the works on the East Asian capitalist development need to move beyond the methodological nationalism inherent in the existing studies on the East Asian political economies and developmental states. In particular, we emphasize that the multi-scalar dynamics need to be more carefully examined in order to grasp the East Asian capitalist development more sufficiently. In addition, we need to understand the East Asian developmental states by putting them in their localities which are historically and geographical situated and constructed through the multi-scalar dynamics of social practices and political economic processes.

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**Towards A Platform Builder:  
The State's Role in Taiwan Biopharmaceuti-  
cal Industry**

*Jenn hwan Wang*

# Towards A Platform Builder: The State's Role in Taiwan Biopharmaceutical Industry

*Jenn hwan Wang*

## 1. Introduction

Recent discussions on the economic role of the state have focused on two major issues: the first is the effect of globalization on the role of the state; the second is the transformation of the developmental states in East Asia due to the double pressures of democratization and globalization processes. In the first stream of the debate, some argued that globalization process has created economic integration and social relations across borders, state capacity and institutional capability have been largely constrained (Ohmae, 1990; Reich, 1992). For example, Ohmae argues that globalization process has largely constrained the state capability in maneuvering its economy, via industrial policy, due to the fact that its economy has been largely immersed into the world market through various market and non-market channels which are beyond the state's control. Still there are some scholars argue that the state's role is transformed rather than constrained, because the state is still one of the major actors in the domestic economy that is responsible for the modification of the impacts of global process against the domestic society (Mann, 1997; Shaw, 1997; Wade, 1996; Weiss, 1998, 2005). Therefore, as Weiss (2005) maintains, the state's role in the globalization process although has been constrained on some aspects, it still has the responsibility to enable its economy through various types of policy in order to meet the globalization challenges. As she argues, "if we combine both long-run and contemporary trends, it is difficult to avoid the conclusion that globalization is reinforcing and, in some important respects, augmenting the role of territorially-based institutions." (2005:346). Or in terms of scaling politics, Brenner (1999, 2004), Jessop (2002) also argue the state in the globalized world, has been de-territorialized in terms of upward and downward of state functions to regional or local levels; the state however has re-territorialized its function by ways of restructuring its organizations and policies to meet the new scale politics in order to keep its economy in good shape or even more competitive.

In terms of the debate on the role of the developmental state in East Asia, many have argued that the state's role is declined due to the changes of geopolitical environment, globalization processes, and domestic politics (Kim, 1999; Dent, 2003; Radice, 2008;



Wong, 2009). For example, Wong (2011) argues that East Asian states have lost their controlling and guiding power in leading their economy into the innovation-based industry. He especially focuses on East Asian states' 'betting' role on developing the biotechnology industry, because the states are not able to lead those highly uncertain and risky industries. The state's role becomes an enabler rather than a leader in the classic developmental state's sense. Nevertheless, Chu (2009) uses the case of ICT (information and communication technologies) industries to illustrate that the Korean developmental state has been reconfigured rather than going into eclipse. The "Korean state continues to play a developmental role by providing leadership and arbitrating differences". By promoting new industries, the Korean state actively draws up vision statements, encourages competition, sets standards and deploys standards aiming at structuring the market, shaping private-sector actions and concentrating national efforts into specific sectors. Through those policies, the Korean state has been successfully promoted those Korean industries to be the leaders in the world market.

Indeed, the above two streams have recognized the impacts of globalization and democratization on the role of the state to the economy. This paper agrees that the transformation of the state does not necessary mean the decline of the state, it rather indicates that the state has to adapt to new environment and readjust itself to new globalized world. In the globalized world, the segmentation of global value chain on specific industry, for example the auto, the semiconductor, or the biopharmaceutical industry which this paper is focused on, has created a global production network that links firms in various places of the world together to produce a specific product (Ernst, 2004, 2005; Breznitz, 2007; Wang, and Lee, 2007). Through these global networks, a new international division of labor has been created that is different from the former North-leading and South-following pattern. Now due to the abundance of cheap talents in the developing countries, a new global innovation network has been formed, in which many segments of the innovation works are performed in the developing countries, if the latter are able to grab the windows of opportunities. Globalization of the segmentation of value chain indeed has created new opportunity for the state to adapt to new environment to facilitate its competitiveness in the new world market (Breznitz, 2007). As Weiss (2005) observes, "there is strong evidence that in the contemporary period the growth of the state has gone hand-in-hand with the rise of global corporations and multilateral institutions, and that these contemporary global networks remain intimately entwined with the domestic structures of nation states" (p.346).

Thus, the state remains important in restructuring its economy. The question however is not whether the state's role has declined, but how the state has been reformed and transformed to adapt to the new globalized environment. In the East Asian context, the issues also relate to how the states transformed from helping the economies changing from catch-up to innovation-based stages as well as from labor-intensive to knowledge

based economies. As being well-known that the nature of the innovation-based economy is highly uncertain and involved risky investments, which state bureaucrats may not have sufficient frontier knowledge in making adequate decisions to lead the economy as they did in the catch-up era. Thus, state decision making process will be very different from that of the developmental state model in which there involved a coherent bureaucracy with strong leadership (cf. Johnson, 1982; Amsden, 1989; Wade, 1990; Onis, 1991; Woo-Cummings, 1999). Instead, we will argue that when developing an innovation-based industry, the state will transform itself into a platform builder that links various actors together to foster the emergence of the industry, which involves the dilution of state leadership to become an innovation-based industrial facilitator and enabler. We will also argue, this transformation is an evolutionary process which involves a process of learning and adaptation where the effect of state policy is not certain due to the uncertainty nature of the innovation-based industry. In this paper, we will use the Taiwanese state's promotion of the biopharmaceutical industry to illustrate how the state transforms and adapts to new global competition in facilitating the formation of an frontier knowledge based industry.

## **2. Towards an Innovative State**

The developmental state model is well-known for its explanatory power in accounting for East Asian catch-up economies. It however has difficulty to explain the transition of these economies towards building frontier innovation-based industries. On the one hand, in the catch-up stage, state bureaucrats have better knowledge base to build certain roadmaps learned from advanced countries in order to transform the local economy (Amsden, 1989; Wade, 1990). However, in promoting innovation-based economy, state bureaucrats do not have sufficient knowledge to promote the technologies that do not exist yet. What they can do is to learn from other countries and adapt to the local institutional conditions, it is therefore a learning and evolutionary process that is highly uncertain.

On the other hand, the state in the catch-up stage had much higher degree of autonomy to monitor the economy and to build public-private alliances when the regime was based on authoritarian rule (Evans, 1995; Weiss and Hobson, 1995; Onis, 1991). The state autonomy however does not exist in the innovation-based economy period when the regime becomes democratic. The state therefore has to become supporter and enabler rather than that of a top-down leader to promote the innovation-based industry. In doing this, as Wong (2004) stresses that the state's role in developing the highly innovative industry has to adapt to the features suitable for this industry: principally to streamline policies among state bureaucracies in order to achieve effective coordination; to build R&D collaboration in fostering learning through interaction; and to enhance competition in strengthening innovation (Wong, 2004: 495). In other words, in order to promote innovation-based industry, the state has to become an innovation enabler and coordinator rather than a leader. We will call this as a type of platform builder as will be discussed later.

In the age of globalization when the segmentation of the value chain has become a world

trend, there are multiple entry points which the states of advanced catch-up economies can pursue to build linkages with global networks to involve into innovation-based industries. As Breznitz (2007: 29) argues, the state can use its science and technology (S&T) policy to pursue innovation activities in individual segments of a particular industry, rather than for the industry as a whole. The state can be viewed as consisting of multiple groups of bureaucracy, each with unique capabilities and embedded in society to pursue innovation within those segments (p. 24). In order to develop those innovation-based industries, Breznitz (2007: 29) also maintains that the state “should focus on motivating private agents to work in these areas and to collaborate with one another and with the state.” Similar to Wong (2010), Breznitz argues that in the rapidly innovation-based industry, because the market is not well-developed and the production is fragmented, the state need to develop the capacity to innovate, moreover it “needs to be able to change its role from that of initiator and leader to that of a supporting actor” (p. 16).

Based on the above views, this paper further argues that, in order to develop this innovation-based industry, the state in advanced developing countries cannot replicate its past successful model that was based on catching up approach. Instead, it needs to transform to an innovative state that can facilitate a new national innovation system to generate innovations. Specifically, the state should emphasize the creation of an innovation milieu through various S&T policies; moreover, state agencies should act as flexible facilitating agents, motivate potential private agents to work and develop broadly-defined and open-ended collaborations that facilitate knowledge flows, and induce the formation of multiplexed networks among the domestic and international R&D, financial and production networks. In this sense, we can describe the state’s actions as those of an agent that facilitates innovation through the creation of a platform that induces the scattered knowledge-creation players, such as researchers in universities and enterprises, to interact with global and local financial agents so as to generate new knowledge and new industries (Wang, forthcoming). I describe this type of state elsewhere as a platform builder which “has fewer ingredients of state leadership in public–private networking, and places more emphasis on the importance of letting the market actors coordinate themselves. Thus, the state is still developmental in that it sets the development project as its policy priority and sets up a platform for interaction, but it then becomes a facilitator rather than an industrial leader.” (Wang et al. 2012, p. 485).

This type of platform builder, as an innovative state, has to have the following institutional characteristics. First, because the former development state model lacks of the experiences in promoting frontier knowledge and technologies, the states therefore has to learn from external sources, especially on the institutional building from advanced countries to promote innovation. Currently, the national system of innovation (Lundvall, 1992; Nelson, 1993), the Silicon Valley model (Saxenian, 1994), or the national competitiveness model (Porter, 1990) have become the classic cases that state officials have to learn. In terms of specific industry, such as biotechnology, the state not only seeks to find experts from abroad, but also build the global-local scientific networks

as to facilitate the knowledge flow and creation. In other words, in order to promote innovation-based industry, the state bureaucracy needs to build multiple ties with and embeddedness within industry both locally and globally.

Second, the state uses resources leverage tools on the targeted innovation-based industries in order to promote those strategically important industries. The policy initiation and implementation are not very different from that in the former stage which the developmental state model has pursued. The major differences lay in the fact that the targeted industries now are innovation-based rather than mature ones, and the knowledge is more frontier that is based more on science than technology (Amsden and Tschang, 2003). It is therefore that the state does not have much experience in facilitating the industries to emerge, sometimes the resources were put into wrong places where no significant results can be produced. Nevertheless, without injecting abundant resources into the targeted innovation-based industries, the state can hardly attract the scientists and private firms to put into those highly uncertain ventures.

Third, the state has to become an assemble of flexible agents to facilitate the formation of multiplexed networks among the domestic and international financial and production networks, and thereby build up innovation-based industries (Breznitz 2007, pp. 29-31). Different from the former developmental state model, where strong and coherent leadership is necessary, this type of state's flexibility is shown in its various state agencies could act as facilitating agents to motivate private agents as much as possible to develop broadly defined and open-ended collaborations that could take the advantages of fragmentation of global value chains and link to global networks. It is therefore taking the heterarchical or policentral, than hierarchical, form of coordination.

Fourth, the state's promotion of the new innovation-based industry also has the ingredient of market augmentation. Although innovation-based industries always involve high degree of scientific elements, they need to be commercialized in order to become profit-making industries. The state, as in the former stage, has to help the private companies to expand their linkages with the world market and to expand the market share (Amsden, 1989). In doing this, the state may facilitate the global- local linkages via commercial exhibitions, forming strategic alliance among firms in various areas in the world in order to match or create market demand. In other words, the state's policy is directed at "improving the ability of the private sector to solve coordination problems and overcome other market imperfection" (Aoki, 1996: 2).

Fifth and finally, the state's transformation is a learning process that involves path dependency features. Indeed, the transformation of the state's role cannot occur in a vacuum and without country-specific contexts. State bureaucrats learn from abroad and their past experiences to adapt to specific innovation-based industries. Even if there are some degrees of institutional change, many existing elements that are inherited from the past are recombined and reconfigured with new ones. Institutional change, as Campbell (2004) argues, is a process



of recombination, referred to as ‘bricolage’, in which existing institutions provide the tool kit or repertoire that actors are able to modify. In this sense, we can suggest that the state’s transformation is not a process starting from scratch, but is rather one that tailors the existing elements to blend with new ingredients into a new one. As such, the development of this state form is an evolutionary process that involves learning and power restructuring as well as an trial and error procedure.

In sum, the platform builder view of the innovative state argues that the state is learning toward promoting innovation-based industries by facilitating the formation of global-local linkages and networks, adapting new institutions from abroad into the locality, construct alliance to generate market demands for the private firms. In doing so, however, the state’s capability is in the process of learning and evolution. It may fail and then re-learn from the past experiences due to the lacking of knowledge in generating innovation-based industry. As Wong (2010) argue, East Asian states’ pursue for promoting the highly uncertain biotechnological industry is a ‘betting’, without having a clear roadmap to follow. The state’s role are aminly to mitigate uncertainty and managing risks. Now, we turn to the story of Taiwanese state’s transformation in promoting the emergence of biopharmaceutical industry with the attitude of ‘betting’ and its evolving road toward a platform builder.

### **3. Taiwan Insert Into The Global Biopharmaceutical Industry**

The process of developing a new drug, from its discovery, to USFDA approval and to marketing is a long process which involves basic scientific research in the initial stage, clinical trials in the middle stage and marketing in the final stage. During the past three decades, owing to the molecular revolution, there has been a marked shift from the trial and error and full vertical integration approach to drug discovery to one that attempts to use a scientific understanding of the biology of a particular disease to find the drugs for it (Nightingale and Mahdi 2006; Pisano 2006; Dosi and Mazzucato, 2006). This revolution in terms of the drug discovery process has dramatically changed the way in which the bio-pharmaceutical industry is organized.

The biopharmaceutical revolution however has been supported by institutional reforms to make it successful. In the 1980s, a series of laws were passed in the U.S. to support scientists and universities to collaborate more closely with private firms, including the Bayh-Dole Act (1980), the Steveson-Wydler Technology Innovation Act (1982), and the National Competitiveness Technology Transfer Act (1989) that allowed Federal support’s research to generate private profits. As a consequence, many scientists became scientist-entrepreneurs and established new firms to engage solely in R&D as well as to sell their research results to big pharmaceutical firms before clinical trials were performed (Dosi and Mazzucato 2006; Pisano 2006). Due to the increasing cost involved in R&D, large pharmaceutical companies thus had the incentive to outsource their R&D function to these emerging scientific research firms. A vertically-disintegrated industrial structure was



created (Nightingale and Mahdi 2006, pp. 76). Now, due to the low cost consideration, these big firms have the incentive to outsource their R&D activities to firms outside of the U.S., such as those from Israel, Ireland, India, China, Korea and Taiwan, and so on. This transformation of the global pharmaceutical industry has created a window of opportunity for the late industrializing countries to enter this new science-based industrial arena.

Since the 1980s, there has been an euphoria world-wide about the development of biotechnology, which was regarded as the robust industry that might trigger new industrial revolution. Having been influenced by the global tendency to promote biotechnology, the Taiwanese state also began to regard biotechnology as one of its pillar industries in the early 1980s. Nevertheless, the industry achieved only a very small degree of success before the new millennium. The state during that time did not have much knowledge on biotechnology on the one hand, and it had put much more resources on semiconductor than on biotechnology on the other hand (Wang, et al, 2012). It was only from the mid-1990s when the state passed the law for the “Promotion Program for Biotechnology,” known simply as the “Biotech Action Plan (1995)” that the state’s determination was felt and the biotechnology industry began to take off. Currently, many new science-based firms have been created and a number of new drugs are undergoing clinical trials and are in the process of receiving U.S. patents. The general pattern has been that Taiwanese new small science firms do the R&D and then sell the patents to global giant pharmaceutical firms for royalty fees. The total revenue of biotechnology<sup>1</sup> industries has increased from NTD\$ 110.9 billion in 2002 to NTD\$ 240.3 billion in 2011; among these subcategories, biopharmaceutical industry has increased from NTD\$ 54.1 billion (=USD \$1.8 billion) in 2002 to NTD\$ 73.9 billion (=USD \$2.5 billion) in 2011, which is over three-folds (table 1). Although this achievement is not as dazzling as that of Taiwanese semiconductor industry (Mathews and Cho 2000), it indicates that the state has moved ahead in transforming itself to be able to engage in this highly uncertain and innovative industry; it however has not been able to create excellent results as compared to that of semiconductor. We will discuss how the state learn to promote this biopharmaceutical industry first, and then discuss why it has not been able to create admirable results.

Table 1: Revenue of Biotechnology, by sector										
	Unit: NTD Billion									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Emerging Biotech*	25.0	29.6	34.3	38.6	43.4	48.3	53.0	58.0	63.3	67.1
Pharmaceutical	54.1	61.4	60.2	62.4	66.0	68.0	69.0	70.0	72.5	73.9
Medical Device	31.8	40.6	50.4	59.0	69.7	74.9	79.0	82.5	92.8	99.3
Sum	110.	131.	144.	160.	179.	191.	201.	210.	228.	240.
	9	6	9	0	1	2	0	5	6	3

Sources: DCB (2012)

\*Emerging biotech industry specifically indicates “those industries that use biotechnology to develop and manufacturing products”, which can be agricultural, biochemical, bio-food, bio-environmental and bio-service industries.

## 4. The State and Bio-pharmaceutical Industry

The state’s transformation from a leader to a platform builder mainly has taken place in the second half of the 1990s, which can be shown in the following features: learning from abroad, resource leverage, formation of multiplex networks, market augmentation, and path dependency. We discuss them respectively as follows.

### 4.1 *Learning from abroad*

Taiwan’s learning from abroad in building the biopharmaceutical industry mainly shows in three major institutional buildings: the construction of innovation cluster; the legal infrastructure; and the USFDA system. First, Taiwan’s learning experience from the U.S. has been successful in imitating Silicon Valley to establish the Hsin-Chu Science-based Industrial Park, in which universities were established adjacent to high-tech firms in the hope to generate knowledge creation and spill-over effects. So it did, particularly in the semiconductor industry in which the universities, research institutes (i.e. the Industrial Technology Research Institute, ITRI), and local firms have been working closely that has created a successful story of the state-led development model. In this case, the state also recruited many eminent scientists who worked in the U.S. major firms to return to help the construction of the industry and build global-local networks (Saxenian and Hsu, 2001).

In promoting the biopharmaceutical industry, the state in Taiwan also intended to learn from the U.S., not only from the Silicon Valley, but also from the Boston Biotech Cluster and the North Carolina Biotechnology Center where frontier innovation in biotechnology are promoted. These clusters are so-called “the triple helix” model (Etzkowitz, 2003) that emphasizes the cooperation among university, industry and government which would generate interactive learning that is essential for innovation (Lundvall, 1992; Bathelt et al., 2004; Malmberg and Maskell, 2002; Maskell, 2005). The above cases provide blueprints for Taiwanese state later to build new research-based science parks in the late 1990s, including Tainan Science-based Industrial Park, and Nankang Software Park.

Based on the former successful experience, Taiwanese state also recruited prominent overseas scientists who would return to Taiwan to facilitate the development of biotechnology. The first one was Dr. Cheng-Wen Wu (吳成文), a prominent specialist in virus oncology who returned to Taiwan in 1988 to serve as the director of the Institute of Biomedical Sciences at Academia Sinica. The second was the return of the Nobel Laureate Yuan-Tseh Lee (李遠哲), who was then a professor at the University of California at Berkeley, to serve as the president of the prestigious Academia Sinica in 1994. The return of these prominent scientists had a great impact, because they continued to recruit and attract even more prominent scientists to return. The current president (2006-)

of Academia Sinica, Dr. Chi-Huey Wong (翁啟惠), who is an internationally renowned specialist in bioorganic and synthetic chemistry, was recruited by Lee to work at the Genomics Research Center in 2000. These people's social networks had a snowball effect in that they attracted more and more biotech people working in the U.S. both in academic and industry to return. These scientists had a great impact on the development of biotechnology, and helped to amend many out-of-dated laws and regulations.

Second, due to the return of these prominent scientists, the state continued to revise its biotechnology policies and make new suitable laws for developing innovation. From 1997 on, the state has held a "Strategic Conference on the Biotechnology Industry" on an annual basis, which gathered together both local and overseas scientists, as well as firms and state bureaucrats, to discuss issues related to the development of biotechnology. The status of the annual conference had been largely elevated since 2005 when it was singled out to become the "Strategic Consular Committee for Biotechnology" under the Science Advisory Group of the Executive Yuan. More generally, learning from the Bayh-Dole Act of the U.S. (1980) to release the R&D capability to the industry, Taiwanese version was passed in 1999 as the "Fundamental Science and Technology Act" that allowed state sponsored researches to generate profits for their own benefits. This in consequence gave the freedom to university professors and researchers to sell their patents to industry, intending to link R&D with industry more closely as to generate innovative products to the market.

In addition, the newest law that was made was the Biopharmaceutical Act of 2007, which was the single most important law that had ever been designed for a specific industry. This act recognizes the fact that developing a new drug is so different from the activities of an industrial manufacturing firm that many tax incentives have been extended to help defer the expenses of R&D activities, of recruiting university professors (they were also given a certain degree of freedom to collaborate with private firms), of allowing university professors to create their own venture capital firms, and of purchasing expensive R&D equipment, etc.

Third, learning from the U.S., the state also set up Taiwan Food and Drug Administration (TFDA) in 2010 to streamline the former separated agencies that were responsible for different type of functions on food and drug risk evaluation. Before the set up of TFDA, the evaluation of new drugs, new medical devices, and health technology assessment were done by the Bureau of Food and Drug Evaluation under the Department of Health (DOH). In 1998, DOH established a Center for Drug Evaluation specific for new drug evaluation. In 2010, the state further integrated the original functional units for Food Safety, Drug Administration, Drug and Food Evaluation, and Drug Regulation under DOH into the new TFDA to make Taiwan's institutional framework to be paralleled with the U.S. one. Regarding the evaluation of new drug, TFDA further established a new office in 2011, called the Integrated Medicinal Products Review Office (iMPRO) to streamline the new drug registration and evaluation processes as to speed up the review time period.

All the above institutional features were learnt from the U.S., mediating by the returnees, to

make the environment suitable for developing new and frontier biotechnology products. In order to promote frontier innovation on biopharmaceutical industry, the state also put more resources in the hope to generate new drug innovation.

#### *4.2 Resource leverage*

The state's financial support for the biopharmaceutical industry are of three types: injecting financial resources to the industry; inducing private venture firms to this industry; and establishing new research institutes. First, although the state had list biotechnology as one of its pillar industries in the 1980s, it had put relative little budget to support its development. It was since the implementation of the "Biotech Action Plan" in 1995, the state has channeled more financial resources into this biotech industry than it did before. The main strategies have been to subsidize firms' R&D expenses, provide tax incentives and low interest rates for lending, and induce venture capital to support the biotech industry. The level of state's direct financial support increased from NT\$ 6.7 billion in 1997 to NT\$ 21.5 billion (approximately US\$ 660 million) in 2006, and to NT\$ 38.5 billion (approximately US\$ 1.28 billion) or roughly a 5.7-fold increase (BPIPO, 2012:).

Moreover, second, due to the limitation of state's financial budget, the state also encouraged private venture capital into this industry in order to promote new science firms to emerge. The state's actions include using tax incentives to induce capital to invest in biotechnology, channeling resources from the Development Fund to induce venture firms to collaborate with it, and enhancing the special projects that call for collaboration between firms and universities. Take the 2009 Taiwan Biotech Take-off programme as an example, the state has invested 40 per cent of the programme's NT\$ 10 billion in the Biotechnology Venture Capital industry, which was to be executed by a professional team. This indicates that privately-owned venture capital accounts for the remaining 60 per cent of the public-private joint stake (DCB,2009). In short, the Taiwan state has begun to experiment with a new approach in fostering venture capital to work with R&D activities without controlling the decisions as to what should be done with the investment. In this sense, the state is creating a platform to generate possible collaboration for new knowledge. In 2010, there were NT\$ 1.2 Billion that was injected into biopharmaceutical industry, composed 6% of all investments, most of the funding still went to electronics and semiconductor industries (TVCA, 2013)<sup>2</sup>.

Third, the state established many research institutes to help to construct the industry. As occurred in the former stage, Taiwanese state imitated its successful story of promoting semiconductor industry by creating the Development Center for Biotechnology (DCB) in 1984 with the mission of creating and disseminating knowledge to firms. Therefore, according its website's statement, "DCB's mission is to accelerate the development of Taiwan's biotech-pharma industry, by accomplishing the main objectives of building infrastructures, developing key technologies, promoting cooperation and industrialization, and training talented workforces, in coordination with governmental, industrial, and



academic institutions.<sup>3</sup>

However, as many have argued, because new drugs are very difficult to develop, even when they had been developed, the new candidate drugs still needed to undergo a long period of pre-testing and clinical trials before they could be approved and commercialized<sup>4</sup>. Thus, the DCB could not function well as ITRI did to the semiconductor industry.

Moreover, in order to face the challenge of the emerging biotechnology industry, ITRI also established “Biomedical Engineering Center” in 1998, which later reorganized into “Biomedical Technology and Device Laboratories” in 2010. Different from pure scientific research, ITRI’s biomedical research aims at more apply and engineer spheres as to differentiate from DCB’s, intends to “to capitalize on the Institute’s multi-domain engineering expertise, integrating Taiwan’s superiority in the fields of electronics, informatics, optical, materials and high-precision manufacturing”<sup>5</sup>. Therefore it focused much on biomedical device than on basic research. In 2003, ITRI spun off a new firm, the Phalanx Biotech Group, to produce biochip, which can assist with DNA sequencing and detect genetic markers that indicate cancer, among other applications, to the market.

In addition, the state also set up many research institutes to facilitate the frontier biotechnology research. The most important one was the establishment of the National Health Research Institutes (NHRI) which learnt from the U.S.’ National Institute of Health to do basic and applied medical research. The project was initiated in 1988, and finally launched in 1994. NHRI’s first president was Dr. Wu Cheng-wen, it moved to Hsin-chu Science-based Industrial Park in 2004. Another case was the establishment of the Genomics Research Center (GRC) in Academia Sinica. The first director of the center was Dr. Wong Chi-huey, who was elected to be the president of Academia Sinica in 2007. The major focus of GRC’s research is to understand genes associated diseases and their functions, in the hope to discover and develop new diagnosis tools and new therapeutic strategies. The Academia Sinica also establish an incubation center in Nankang Software Park to encourage the formation new science firms in order to link scientific research with industry.

Of course, there were many national projects that intended to facilitate frontier biotech research supported by the National Science Council and executed by universities. All and all, the state’s resources leverage has been intended to facilitate the emergence of the biotechnology industry. However, there were many institutes that were pursuing and competing for the resources. Therefore, how to streamline the competing agencies has been a difficult issue for the post-authoritarian state.

#### *4.3 Formation of multiplex networks*

In the post-authoritarian and democratic stage, Taiwanese state has lost its centralized coordination capability in decision making. Many state functions have been decentralized and devolved to various state agencies. Promoting the biotechnology industry thus faced a



decentralized and un-coordinated situation. As Wong (2005) observed in the early 2000s, there were a large number of state research agencies that were doing the similar works and competing among themselves for state funding. These agencies include Academia Sinica, the Ministry of Education, the National Science Council, the Ministry of Economic Affairs, the Council of Agriculture, the Ministry of Finance, the Environmental Protection Administration, the DCB, ITRI, the Department of Health, and the National Health Research Institute. In order to coordinate those diverse agencies, a task force was formed in 1996 which comprised government officials as well as academic and research-based organizations, to streamline the work of the diverse units: this was the Biotechnology and Pharmaceutical Industries Promotion Office (BPIPO). However, the BPIPO seemed not work well afterward, the uncoordinated situation had not improved much. According to Wong's observation, "the model of biotechnology development in Taiwan is akin to a jazz band – several different instruments 'doing their own thing' (Wong, 2005: 179)".

By recognizing the chaotic organizational feature, the state once again strengthened the BPIPO's function and assembled all the related departments of the state to form a "one-stop-service for the biotechnology industry" office under the Ministry of Economic Affairs to reduce the coordination problems in December of 2001. Also, in 2009, the state announced the "Biotech Take-off Action Plan" that aimed enhancing the industrial value of biotechnology and streamlining the division of labor among state agencies. This Action Plan decided to form a supra venture capital, promote integrated incubation center, create the TFDA, and restructure medicine-related laws to fit international standard. Under this Action Plan, the National Science Council is responsible for frontier scientific research, the Ministry of Economic Affairs is responsible for mid-stream industrialization, and the TFDA is responsible for the downstream review and approval mission. All the applications have to go through the BPIPO's "one-stop-service for the biotechnology industry" office. It seems that only at this stage, after almost 15 years that the state has accomplished the re-assembling work for various state agencies to promote the biotechnology industry.

In the mean time, as many prominent overseas scientists returned to Taiwan, they not only contribute to the creation of the industry, but also link Taiwanese firms to the global market. For example, Genelabs Technologies was found at Boston in 1984 and was listed at NASDAQ in 1991. The founder returned to Taiwan to found Genelabs Taiwan and received the investment from the National Development Fund, in 2002 it renamed as Genovate. This was the first returnee case in biopharmaceutical industry. Other cases such as TaiGen Biotechnology, which was founded in 2001 by returnees and dedicated to new drug development, and similarly another case, TaiMed Biologics was also founded by returnees in 2007 and received a large amount of investment from the government that was dedicated to AIDS New Drug discovery (Chen, 2008). These newly-established science firms can utilize the R&D funding subsidized by the state, as well as the funding invested by venture capital firms, to engage in exploratory research

that targets specific diseases. Once they are able to obtain the experimental results either during or before the stage of the pre-clinical tests, they then tend to sell the findings to big global Pharmas to gain royalty fees (Tseng, 2008). Indeed, these newly-emerging science firms have much closer linkages with global Pharmas than do with domestic firms. This case shows clearly how Taiwanese firms utilize the fragmentation of global value chain to insert into the global networks.

#### *4.4 Market augmentation*

The development of Taiwan's biopharmaceutical industry suffers from two major related weaknesses: the first one is that because Taiwan lacks global firms, therefore the candidate drugs developed by those small science firms could only be sold to global firms with little domestic linkage; the above feature has also enhanced the tendency in which most of the resources were devoted to frontier research that results in the lacking of translation research and in consequence, marketable products. These features all relate to the fact that Taiwan is a small market that has difficulty to nurture an industry that based on frontier knowledge. However, the improving relationship between China and Taiwan since President Ma Ying-jeou took over power since 2008 has opened the window that the industry has hoped for to establish scale economies. Now, the state plays the role of market creator to augment the interest of the industry.

There are two programs that Taiwanese state have been negotiating with China in order to enhance Taiwanese industry's share in its market. The first one is the "Bridging Program" promoted by the Ministry of Economic Affairs since November of 2008. The purpose of the program is to bridge the industries across Taiwanese Strait to work together in order that Taiwanese firms would be able to penetrate into the Chinese market and Chinese firms would also be able to learn knowledge from Taiwanese side. Fifteen industries were selected by both side, including the development of new drug based on Chinese traditional herbs. The agreement involve: join development on new products, construct market channels, protect property rights, set industrial standard, build evaluation system and certification mechanism, etc. Various conferences from both side have taken place ever since. Regarding the development of new Chinese Herb drugs, both side also signed the agreement that include join development of new drugs and help Taiwanese firms to build market channels in China's market<sup>6</sup>.

Moreover, via series of Chen-Chiang Cross Strait Summit, held annually by both Association for Relations Across the Taiwan Straits (Taiwan side) and the Straits Exchange Foundation (China side), an "Agreement on Cross Strait Medical and Health Cooperation" was signed in 2010, that involved many important issues, including public health, disease control, medicine import and export control, and most importantly for our purpose, helping Taiwan to use Chinese market to pursue for global excellence.

Owning to its enormous size, Chinese market is one that has attracted the attention of

global pharma. It is especially attractive to Taiwanese firms due to its small market size. Therefore, if both sides of Taiwan Strait are able to cooperate, especially that China wanted to build its own new drug evaluation system that under its own control, Taiwanese firms are going to have a window of opportunity to expand its capability not only in the frontier new drug development stage, but also can extend to clinical tests, production and marketing. This is the hope benefiting for both sides, Taiwanese state now is helping the industry to realize the China dream and expand the market share.

As the result of state's promotion, in 2011, Taiwan's emerging biopharmaceutical had over 400 firms, with a total revenue of NT\$ 73.9 billion (=US\$ 2.5 billion), of which many were created by overseas returnees from the US (DCB, 2012); and almost all of them were small- and medium-sized companies. Many of these newly-emerging biotech firms were established from the late 1990s onwards and were in the biopharmaceutical field. As a whole, according to the state's perception of biotechnology, which include also pharmaceutical and medical device, all the subsector has increased rapidly, including biopharmaceutical.

## **5. Path Dependency and Its Effects**

As a whole, the development of biopharmaceutical industry has not been able to achieve an eye catching result as the semiconductor industry has done. It may due to its very different characteristics of the industry, such as the value chain is very long, based much more on science than on technology, much higher risk, etc., but it also related to the fact that the state is not very familiar with promoting an innovation- based industry. To develop a frontier technology needs a knowledge base that is beyond the incumbent state official's capability. Although the state learned from abroad and invited overseas scientists to come back to help to facilitate the formation of the new industry, the development of this industry has been difficult and full of uncertainty. State officials tended not to be able to follow and to use the former developmental state methods to facilitate the emergence of the industry. As a result, a path dependency effect was created. The consequence has been that the formation of a platform builder has been taken a long term process to emerge. The evolutionary process can be shown in the following institutional features.

First, in the first stage of the promotion of biotechnology in the early 1980s, the state still intended to lead the industry to develop. It set up the DCB, collaborated with Sanofi Pasteur of France, and created two national champions firms to produce vaccines for Hepatitis B and C. The state still wanted to lead, however, neither DCB nor the firms were able to continue to develop state-of-the art products, finally the project was finally terminated in 1995 (Wang, et al. 2012). The state finally realized that biotechnology was very different from semiconductor that need different strategy.

Second, the institutional mechanisms which the state learned from the U.S. still lacked

the elements that could take the risk of uncertainty into consideration in facilitating frontier innovation. Indeed, by learning from the U.S., Taiwanese state reformed its state structure to align with the innovation-based economy and encourage the linkage of university with industry. However, the realignment only has the outlook without having the content of risk taking. To use two examples to illustrate. Taiwan imitated the U.S. to establish venture capital market in order to facilitate innovative start-ups. However, different from venture capital in the U.S. that tends to invest in the initial stage of innovation when risks are high, Taiwanese counterparts instead tended to invest in the mature stage when the products are ready to the market and profits is predictable. This creates the situation where most investment at the initial stage of the start-ups were invested by 3-Fs: friends, family, and fools<sup>7</sup>. For another, although Taiwan has established TFDA in order to streamline the review and evaluation process for the new drug, the review process always takes a very long time. It is because the state officials and local scientists lack of confidence, or lacking the spirit of innovation, in approving frontier products, they therefore tend to wait for the USFDA results. As a consequence, Taiwanese firms tend to apply directly to USFDA and skip the Taiwanese application, or use the approval from USFDA to apply TFDA<sup>8</sup> One informant complains, “although the situation has been improving in recent years, the speed still has been too slow. Our TFDA is still too conservative, our standard also seem higher than that of the U.S.. whose attitude is much favorable for the industry, our’s is afraid of making mistakes. Our local firms is wasting time to apply TFDA.”<sup>9</sup>

Third, similar to the above situation, although the state now encourage innovation and entrepreneurship, the whole environment still lacks of innovation spirit. On the one hand, most of the talents are concentrated in universities and research institutes, they tend to stay at comfortable environment with little incentive to create the private kingdom of their own. This has been due to the lacking of incentive structure to induce professors and researchers to create their own enterprises<sup>10</sup>. This is because the Ministry of Finance has conflict of interest with the Ministry of Economic Affairs on tax regulation that has largely reduce the incentive structure. For example, one informant said, “The Ministry of Economic Affairs promotes patent application and has given this a tax reduction reward; however, no one has ever enjoyed it. Because according to our Fundamental Science and Technology Act, patent belongs to the institutes, but individual still can enjoy the tax incentive; however, the Ministry of Finance regard the patent belongs to the institution rather than individual.”<sup>11</sup>

On the other hand, the long term catch up mentality has created an environment that lacks of confidence to become leaders of frontier knowledge. Therefore, even when new institutional reform ideas were brought up by returnees, many old elements were inserted into this new institution and hampered the development of new drug. One good example was the case of Dr. Yuan-Tsong Chen, who is famous for creating the drug, Myozyme, that can cure the Pompe disease. Dr. Chen returned to Academia Sinica in 2001 before he retired from Duke University. Dr. Chen’s case was that he was prosecuted by the district attorney for not obeying the Government Procurement Act, when he wanted to speed up his research by licensing his finding to a specific chemical reagent company without having had the



public procedures. The case brought the conflict between the Fundamental Science Act and the Government Procurement Act, the former intended to speed up the frontier scientific industry whereas the latter wanted to emphasize the public interest. The case finally was resolved when Dr. Y. T. Lee, the Nobel Prize Laureate, and the Academia Sinica claimed that the Government Procurement Act should not hamper the progress of scientific discoveries and innovation. Now, most of frontier innovation studies can avoid the bothering from the Government Procurement Act.

Indeed, to transform from the developmental state to an innovative state has been a long term process which involves institutional learning and evolution. Even when new institutions are implemented, the old catch-up mentality will also not change rapidly; therefore, state officials and local scientists tend to regard following others are better and safe strategy, they dare not to take the risk of uncertainty and failure which are the ingredients of innovation.

## **6. Discussion and Conclusion**

Taking the advantage of the fragmentation of global value chain of the biopharmaceutical industry, Taiwanese state intended to use this opportunity to upgrade its economy from catching up to innovation stages. In doing so, the state has gradually transformed from the leading to facilitating roles. This paper shows that this facilitating role as a platform builder has four institutional characteristics: learning from abroad to implemented compatible institutions to nurture innovation industry; using the strategy of resource leverage to stimulate the innovative industry to emerge; building multiplex networks to insert local firms to global networks; augmenting the market size by negotiating with China to expand the industry's prospective future. This paper also shows that the state transformation has been an evolutionary and learning process that has a path dependency effect, therefore, the state's promotion of biopharmaceutical industry has met many institutional obstacles, especially the state officials' resistance on risk taking that resulted in the slowness of the evolution.

Our study of the state transformation from the developmental state to the platform builder raises three issues that deserve to be discussed further: first, As a platform builder, the state tends to let the related actors to build networks by themselves without guidance. Whether this version of the state is much similar with the neo-liberal state? The answer is no (Wang, et al., 2012: 495-6). Because the state still has a clear aim to achieve, put resources to promote it, build global-local networks, and create market for the industry. Therefore, it differs from the neo-liberal state, in that it stresses the state's policy priority in building a favorable environment for and facilitating the emergence of frontier innovation and industry. The state is enabling, but not guiding, the formation of the market (Wong, 2011).

Second, the building of the institutional platform to facilitate the industry to emerge also



raises the question of the coordination problem- one that is about the effective allocation of productive resources (Wong, 2004:495). In the past, the developmental state had a clear leadership, owing to its authoritarian characteristics. Now, in the democratic society, public opinions and special interests always penetrate the state bureaucracy which leads to the incompetence of state bureaucrats. Wong, (2004, 2005) observes, both Korean and Taiwanese state faced the problem of coordination, which led to competition among ministries for the same goals and wasteful of financial resources. However, our case has shown that bureaucratic coordination or governance in promoting an unfamiliar and uncertain industry needs a process of learning, Taiwanese case shows that the chaotic situation has continued for quite a long time until recently. However, this coordination is still not the 'leadership' type, but a heterarchical type with clear division of labor and coordinated by collaborating ways.

Third, our case shows that even Taiwan has endeavored to develop frontier innovation-based industry, in the end, however, the industry has to be inserted into the global value chain controlled by big global Pharmas (also Breznitz, 2007). Now, those new Taiwanese science firms only become the R&D centers for the global giants pharmas. Taiwan still lacks the capability and capacity to create a whole value chain controlled by itself. Of course, there is a debate whether an economy needs to establish an industry that ranges from upstream to downstream. As some informants argue, if the industry that focuses on R&D still can earn profit, that is good for the economy<sup>12</sup>. But the problem is that this industry has used enormous amount of public funding, enlarging private profit at the expense of public interest is not enough.

Fourth, and finally, the above question raises another issue, that is: whether an innovation-based industry, such as biopharmaceutical, can benefit the economy as a whole? It seems inevitable that the state has to put biotechnology as one of its pillar industries in its industrial policy due to the fact that Taiwan cannot lag behind to the world and hope to achieve leadership in the future in the world market. However, due to its science-based and knowledge-intensive characteristics, this biopharmaceutical industry so far has attracted only very limited jobs and this tendency will continue for a period of time. Therefore, whether this industry will create benefit to the economy as a whole is questionable (cf. Chen and Wang, 2010; Wang, forthcoming). As Aoki maintained (1996: 23), "It is important to recognize, however, that when technologies are advanced and exploration into new technological opportunities becomes highly uncertain, standard setting, with the heavy involvement of government, even if performed jointly with the private sector, may result in higher costs when a mistake is made. "Accordingly, although Taiwan has indeed achieved certain degrees of success, the future development of biopharmaceutical industry is still full of uncertainty. Taiwanese state is still in betting!

## Notes

1. In Taiwan state's version, the biotechnology industry includes three sub-categories: emerging biotech industry, biopharmaceutical, and medical device. Therefore, the figures include all three subcategories' financial input.
2. Taiwan Venture Capital Association (TVCA), <http://www.tvca.org.tw/index.php>, download at: 2013/7/1.
3. DCB's Website: [http://www.dcb.org.tw/en\\_aboutus.aspx](http://www.dcb.org.tw/en_aboutus.aspx), download at: 2013/06/10
4. In Taiwan, most of the public research institutions, such as the DCB, receive funding mainly from the state and face fierce competition for national resources. Because developing new drugs is a time-consuming process, the DCB has to have academic research publications to show its performance in the meantime. Over time, the publication of academic papers has replaced the original *raison d'être* of the DCB, which was to function as a mediating institute.
5. Website: <http://www.itri.org.tw/eng/econtent/research/research07.aspx>
6. ang, Jia Yan and Tseng, Ren Jie (2010), "Introduction of the Ministry of Economic Affairs' Bridging Programme", <http://www.dsc.com.tw/event/WB001635/1S/WB001647/WB00164703-3.htm>, Download at: 2013/7/10.
7. Author interview, Taipei, November 8, 2012.
8. Author interview, Taipei, December 7, 2012.
9. Author interview, Taipei, May 8, 2013.
10. Author interview, Taipei, May 17, 2012.
11. Author interview, Taipei, May 17, 2012.
12. Author interview, Taipei, December 7, 2012.

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**The Costs of Commensurability:  
Debating Economic Democracy in  
South Korea**

*Jamie Doucette*

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Jamie Doucette

## Introduction

In the lead-up to South Korea's 2012 Presidential election, the terms 'economic democratization' (*kyoungje minjuju*) and welfare state anchored much of the economic debate within and between parties, with both the ruling conservative and oppositional parties embracing these concepts in public debates and in their campaign pledges. Compared to the previous presidential elections in 2007, which were fought on a growth-first rhetoric that resonated with an older politics of developmentalism, this marked a distinct discursive transformation as, historically, concepts and ideas associated with social democracy have been repressed in South Korea. After Park Chung Hee's May 16th Military Coup in 1961, the activities of social democratic parties were curtailed and leaders arrested under the National Security Law (Roh 2002, 312-313). Since then dominant conservative politicians have frequently labeled even liberal democratic reformers as 'pro-North Leftists' (cf. Doucette 2013). For the idea of economic democracy and the creation of a welfare state to become key electoral pledges for both conservative and liberal parties is thus a departure from the status quo to the point that democratic reformers now talk about the Korean peoples' 'passion for welfare' (Chung TI 2012, np).

Moon Jae-In, presidential candidate for the Democratic Party in the 2012 elections, commented before the December vote that during the Roh Moo Hyun government (2002-2008), "advocating economic democracy would have had you labeled as a leftist. Today, however, the entire public supports economic democracy" (Hankyoreh 22 Nov. 2012). Kim Sangjo, a prominent economist involved in the minority shareholder movement voiced a similar sentiment; "economic democratization is the spirit of the times now, but just one year ago the opposition camp pointed a finger at me calling me an extremist, red-leftist about my opinions on economic democratization" (Hankyoreh 09 Sept. 2012). This sentiment was also echoed by conservative intellectuals. For example, the conservative, American scholar Victor Cha approvingly noted that the election was fought on the center, which meant for him that there was less polarized rhetoric on North Korea, a toning down of 'growth-at-any-cost' rhetoric, as well as promises to close the income and wealth gaps and to regulate the behavior of the chaebols (Kang DC, Leheny, D, and Cha V 2013, 246).

This more commensurate vocabulary stands in contrast to the 2007 Presidential election, which was fought on charges that Korea had seen a 'lost decade' of growth during the liberal democratic governments of Kim Dae Jung and Roh Moo Hyun. The winner of the 2007 election, conservative Lee Myung Bak, claimed that, in contrast to the 'leftist' policies of his predecessors, his policies would usher in an era of 'national advancement' beyond democratization and industrialization. The term for advancement (*seonjinhwa*) connotes a sense of following in the footsteps of advanced nations and tends to be used as a mantra by conservative politicians and government ministries to denote a process of modernizing policy and politics (cf. Kim JT 2011 and 2012 for a history of the concept). In recent years the term has an increasingly anachronistic feel to it, even to commentators in the popular conservative press; for example, Lee Jin-Seok (2010, np), an economics reporter for the conservative Chosun newspaper, asks "is it reasonable for the Korea people to repeatedly deplore their backwardness and cry for national advancement"? It seems that even conservatives have become more critical of developmental teleologies, even if, perhaps, they tend to be critical not so much of evolutionary schemas of development to begin with as much as they dispute Korea's place on such metrics: they tend to see Korea as having already gone through a process of national advancement, rather than criticizing such a schema to begin with.

Some conservative forces have also endorsed the rhetoric of economic democracy to reflect a popular and re-occurring anxiety about the power of the country's large, family-led conglomerates, the *chaebol*, albeit for different reasons than some on the left. In recent years, since the pro-*chaebol* policies of the Lee Myung Bak government, the *chaebol* have begun to encroach on the SME sector, particularly retail, establishing large big-box style outlets or 'hypermarkets' near traditional markets that put pressure many small retailers and the self-employed. Self-employed workers represent a significant number of voters and also make up 27.5% of Korea's work force, with 54% making less than \$USD 1500 a month and approximately 27% reporting losses or no income (Kim SB 2012, 86). The condition of many small retailers is not that different from that of irregular workers, who number about 48% of wage and salary workers by moderate estimates (Korea Herald 2011). This has led the conservative party to pledge to protect consumers and small businesses from 'mammoth economic forces' and to promote small, traditional markets by proposing to limit the size and location of superstores (Lee JH 2012, np). Besides their encroachment on the SME retail sector, the *Chaebol* continue to grow larger and larger with the continuing success of large exporters like Samsung and Hyundai; the sales of the top ten *Chaebol* the sales reached nearly 80% of GDP in 2012 (Hankyoreh 28 Aug 2012). The sheer size of these conglomerates creates anxiety for reformers on both sides of the political spectrum, which is why talk of welfare and economic reform have become much more prominent than growth-first rhetoric.

This essay explores some of the sources of this move towards more commensurate



debate surrounding economic democracy. To do so, it examines the influence of several key economic reformers and situates their debates over economic reform within the wider trajectory of Korean democratization. In particular, I advance two inter-connected arguments surrounding contemporary debates about economic democracy: on the one hand, I argue that the commensurability of recent debates surrounding economic democracy can be regarded as a positive outcome of democratization in as much as it signifies the reduction of antagonism between political forces and seeks to move beyond the growth-first and anti-communist vocabulary of Cold War industrialization. However, such peaceful co-existence has its costs, I argue, particularly for liberal-left articulations of economic democracy, as recent debates among prominent economic reformers have tended to be focused more on competing solutions to the corporate governance of Korea's large family-led conglomerates, or chaebol, than broader egalitarian solutions to social inequality and social injustice.

This essay is organized as follows: the next section discusses some of the conjunctural dynamics that made the present debate more commensurate: in particular, the role of conservative intellectual Kim Jong In in the Saenuri Party's Presidential campaign. The following sections then analyse some of the tensions among key intellectuals involved in the liberal-left debates, some of whom see the Chaebol as a potential complement to economic democracy and others as an obstruction. The final section explores some of the conceptual and methodological aspects associated with economic democracy that were raised but left insufficiently addressed by both camps during the current debate.

## **Beyond Seonjinhwa**

The 2012 debate enlisted an interesting cast of characters on both sides of the political spectrum, a cast that is intricately tied up to the process of democratization in South Korea. A key factor that made the debate more commensurate was the role played by Kim Jong In, who served as Chairman of the 'Public Happiness' Committee for the conservative Saenuri Party's candidate Park Geun Hye (daughter of former dictator Park Chung Hee) during much of the electoral campaign. Kim was previously a national assembly member for the ruling Democratic Justice Party (predecessor of the Saenuri Party) during the 1980s and chaired the economic subcommittee in the special parliamentary committee for the amendment of the Constitution during Korea's June Democratic Uprising of 1987. During the constitutional revisions in 1987, Kim was the architect of Article 119, item 2 -- the famous "economic democracy clause" -- of the Constitution of the Republic of Korea, which reads:

The State may regulate and coordinate economic affairs in order to maintain the balanced growth and stability of the national economy, to ensure proper distribution of income, to prevent the domination of the market and the abuse of economic power, and to democratize the economy through harmony among the economic agents.

This was a controversial clause to get inserted into the constitution, even by an insider like

Kim. The Federation of Korean Industries (FKI) spent millions of dollars to thwart the amendment, and put pressure on the incumbent President, Chun Doo Hwan, who asked Kim to omit the amendment after the June 29 Declaration (which granted significant concessions to the Democracy Movement) in 1987. Kim held out, arguing that without this clause any future attempt to regulate the chaebol (Korea's large, family-controlled conglomerate groups) would be regarded as unconstitutional (Hankyoreh 04 Oct 2012).

One of the reasons for the original clause is most likely the fact that the ruling government, though supported by the chaebol, saw them as potential competition for political hegemony. Kim Jong In argued that during the later stages of the Park Chung Hee era, whose heavy industrial drive had allowed the Chaebol to develop rapidly into huge diversified conglomerates, members of Park's conservative regime felt that some constitutional stipulation might be necessary to limit the power of the chaebol (cf. Hankyoreh 04 Oct 2012). Shortly after Park's assassination, the Chun regime (1980-88) allied itself with neoliberal bureaucrats who were also ambivalent about the power of the large Chaebol (cf. Chang and Shin 2003, 66-70; Kim Y-T 1999; 2009 128-150). Following Chun, the Roh Tae Woo government appointed a reform-minded economic cabinet. Subsequently, the FKI publicly criticized the economic policies of the Roh government, which later merged with two opposition parties to create a governing majority, in the process appointing officials that were pro-chaebol. The Roh government suppressed strikes and suspended the financial reforms aimed at curbing illegal financial transfers (the real name deposit system), policies that had benefited the chaebol; at the same time, they also sought to control land price speculation by regulating non-business real estate investment by the chaebol and encouraged industrial specialization and the separation of ownership and management (Kim Y-T 2008, 138-40). While the chaebol benefited from many of Roh's economic policies, they also felt constricted by others and attempted to politically compete against the government in the 1992 elections. Hyundai's Chung Ju Yung, Daewoo's Kim Woo Chung and former POSCO president Pak Tae Joon would run or attempt to run for president in these elections. Because of this competition, even conservative politicians from even the relatively pro-chaebol political parties such as the Saenuri Party have some reservations about the power of the chaebol in both electoral politics and the wider Korean economy.

In the lead-up to the 2012 elections, Kim Jong In released a book (Kim JI 2012) called *Why Economic Democracy Now?* In it, he emphasized that while he is in favor of a market economy, he sees a role for the state to control avarice (Lee JH 2012), including the large chaebol. This generated some tensions with conservative party members who argued that Kim's concept of economic democracy is a set of loose principles rather than a solid institutional framework for action. This was not the case however, as Kim had identified the cross-ownership and contracting practices of the Chaebol as a potential target for reform, including the illegal succession practices used by ruling families to ensure younger generations inherit control over the group. Kim's promotion of economic democracy thus created tension between the conservative party and its supporters in big

business, who once again campaigned against the idea of economic democratization and tried to get both parties to drop the slogan. FKI Chairman Huh Chang-soo argued that the idea of economic democratization is mainly based on 'populism,' and is "too ambiguous" and that the business community was not in support of increasing corporate income tax or other distributive policies (Korea Times, 27 July 2012). Advisors to the conservative candidate Park Geun Hye thus sought to dilute the concept. Some of Park's other advisors even argued that her largely neoliberal 2007 platform for the conservative candidacy was one based around the idea of economic democratization. Park's 2007 platform was nicknamed "Julpuse," an acronym of Korean words referring to tax reduction, deregulation and adjusting the legal order (deregulation): an approach that Kim Jong In, while he was still advising Park, argued had become obsolete (Lee JH 2012).

Kim's willingness to criticize his own party eventually caused him to lose his position on the Park campaign's Public Happiness Committee before the election in what was seen as an attempt to shore up her support from the Chaebol (Hankyoreh 13 Nov 2012). Even before this happened, Kim seemed to be ambivalent about his own participation in the election. Before the April 2012 general elections he quit the party's emergency leadership committee because he felt that the candidates that the party nominated would not work for economic democracy. Even while chairing Park's Public Happiness Committee, he declared that "It's still not clear at all that any of them [Park and the NFP] have any determination to pursue economic democracy" (Hankyoreh 15 Sept 2012). Kim seemed to have some premonition of his fate in the Saenuri campaign and even stated in the media, months before he was dropped from the campaign, that a close acquaintance, and key figure in Korean economic reform movements (Hansung University professor Kim Sang-jo), told him he would be "used and discarded" by Park (ibid).

Nonetheless, Kim's participation in the overall debate helped to legitimize the terminology of economic democratization and establish it as a legitimate political goal, even if the exact meaning of the concept was open to wide interpretation. This represents, at least at the level of discourse, something of a passive revolution in terms of the current discourse of the liberal left bloc. In making the chaebol a key part of the debate, and identifying their cross-ownership structure and increasing market share as a key concern tied up with economic democracy, Kim moved the debate on economic policy in a commensurate direction with that of the liberal-left, especially with those reformers that have participated in the minority shareholder movement – a movement that is closely associated with the idea of economic democracy in South Korea. The result was that electoral debates surrounding economic reform were much more civil, and the Cold War vocabulary traditionally used to bait the liberal-left seemed absent, at least in debates surrounding economic reform.<sup>1</sup> Compared to the 2007 elections, with its dominant conservative discourse of Seonjinhwa (joining the advanced countries) and neoliberal campaign pledges, this is a significant change. The frontier of popular debate has shifted in a way that can allow for more progressive and egalitarian demands.

## Historicizing Economic Democracy in South Korea

What I seek to do in the remainder of this essay is to explore the cost of this commensurability, with a focus, in particular, on the content of liberal-left debates surrounding economic democracy during the 2012 elections. These elections represented a significant opportunity for liberal-left opposition parties to articulate an alternative to conservative economic policies of Lee Myung Bak, and prominent reform intellectuals occupied key advisory roles in the Democratic Party's campaign. Moon Jae In, for example, included such prominent economic advisors as Lee Jeong Woo, Roh Moo Hyun's former Presidential Planning Committee Chairman, in his campaign, and a number of other economic reformers associated with prominent civil society groups participated in various public forums and debates about economic policy that involved reform intellectuals as well as members of rival presidential campaigns. While these debates produced a wide terminology that came to be associated with the slogan of economic democratization, such as welfare state, public happiness, and fair market economy, many activists and progressive intellectuals felt that the debates between prominent liberal-left intellectuals in particular did not offer enough of a substantive or strategic vision of economic democracy.<sup>2</sup> This discontent was largely based around the fact that much of the debates between prominent reform intellectuals remained focused on contrasting views surrounding corporate governance and that stemmed from earlier policy debates during the Roh Moo Hyun regime. In the remainder of this section, I'll explore the prehistory of the current debates in the context of Korean democratization. In the following sections, I'll examine the contemporary debates in greater detail and discuss some of the strategic dilemmas that they raise.

To better comprehend the limitations of the current debates, it is important to first understand that demands for economic reform and democratization were once inseparable from the larger goals of Korea's peoples' movements for equality, reunification, and democracy in the sense that there were jointly articulated as a set of broad democratic goals in relation to a mass 'peoples' (minjung) movement. A number of the participants in the current debates played key roles in Korean democratization themselves, some as student activists and others as participants in continuing debates among progressive groups from the democracy about the structure of Korea social formation, the nature of the Park Chung Hee 'developmental dictatorship' (Lee BC 2006), and the meaning of democratization and civil society (cf. Cho HY 2010). Within these wider debates, the term economic democracy has seen a transformation in meaning: from being associated with participation of the 'masses' in state policy as part of a project of participatory democracy (Kim Dae Jung's project for a Mass Participatory Economy) to more limited set of meanings associated with minority shareholder activism and more recently an ambiguous set of meanings associated with both improved corporate governance and some aspects of a welfare state. To understand this transformation and the multiple set of meanings that are associated with the concept of economic democracy in South Korea, especially on the liberal left, it is important to briefly situate it in relation to the



wider trajectory of Korean democratization. This focus can help explain the sometimes conflicting and quixotic meanings of the phrase as well as some of the key tensions that have animated the debate around it.

In the 1970s and 80s, the target of the democracy movement was the military regimes of Park Chung Hee and Chun Doo Hwan and the large conglomerates that many saw as helping prop them up. Even while in prison in the 1980s, Kim Dae Jung criticized the influence of the chaebol and advocated a liberalized financial system that can have the autonomy to regulate the conglomerates, leading, Kim hoped, to non-inflationary growth, financial expansion, and greater efficiency (Kim DJ 1987, 290-292). Kim named this platform the Mass Participatory Economy, a slogan that was considered to embody the principles of economic democracy. After the June Uprising and during the 1990s and 2000s, however, the term economic democracy become more closely associated with the new citizens movements and groups such as the Citizens Coalition for Economic Justice (CCEJ) and the minority shareholder movement that emerged out of the Participatory Economy Committee of Peoples Solidarity for Participatory Democracy (PSPD); a group whose campaigns are strongly associated with idea of chaebol reform. Because it has been closely linked to the history of the democracy movement, discussions of economic democracy on the liberal-left tends to bring up issues about the interpretation of Korean economic history: particularly the question of how one should approach the legacy of the Park Chung Hee dictatorship, or the 'developmental dictatorship' as Lee Byeong Cheon (2006) has described it. At the center of the debate is the role of the Chaebol and what role they should play in potential prescriptions for economic democracy in South Korea. The debate that took place on the liberal-left on the concept of economic democracy in 2012 revolved heavily around the chaebol, and in many ways rehashed previous debates between reformers associated with the minority shareholder movement and pro-industrial policy reformers from prominent economic reform groups such as PSPD, CCEJ, Tae-an Yeondae (Alternatives Network), and Solidarity for Economic Reform (SER), among other groups.

The previous debates were directly related to the nature of economic reforms under Kim Dae Jung and Roh Moo Hyun: the 'participatory' governments<sup>3</sup> that inherited the legacy of the 1997 financial crisis and had to wrestle with implementing significant procedural political reforms and figure out what to the residual legacy of the economic institutions of the authoritarian developmental state. When Kim Dae Jung government came to power in the midst of the 1997-98 Asian financial crisis, many of the policies associated with Korea's rapid industrialization, such as industrial policy loans and tight capital controls had already begun to be liberalized. Kim Young Sam's 'sseggyehwa' or 'globalization' reforms in 1993 phased-out policy loans and liberalized short-term borrowing on foreign markets. The Chaebol borrowed on these markets and used much of this money to compete with each other in similar product lines leading to overcapacity and declining profitability in addition to high exposure of short-term interest rates. This helped provoke Korea's currency crisis during the Asian Financial Crisis of 1997/98 finally. All that remained of the old model was the highly indebted Chaebol. Kim was faced with a tough choice between retaining the



high debt model or liberalizing the system even further in order to create a more market-oriented system of corporate governance. It was this latter system that he chose, but it was one that created tension among his supporters, particularly since it was accompanied by strong neoliberal labour market reforms.

The solution of the Kim Dae Jung government and the IMF was to choke the chaebol of credit so that only the largest survived. This led to a deep contraction and diminished rates of economic growth, but the chaebol that survived the crisis increased their profitability as they now had lower debt and labour costs than before the crisis. The financial market rather than banks and policy loans were now seen as main source of capital for industrial investment. Furthermore, both foreign and domestic firms argued that they need to cut back on labour costs to be more attractive to investors. Kim gave into these calls and used a tripartite commission of labour, business and government to come up with an agreement to allow firms to layoff workers or hire temporary ones in exchange for a moderate increase in welfare and a restructuring of the national medical insurance and pension systems. As an alternative to a growth model based on a highly leveraged corporate sector, the government encouraged the creation of financial policies favouring working and middle classes. Financial resources that had been oriented toward the corporate sector were reoriented to households in the form of mortgage and consumer credit. These reforms did not lead to more balanced growth, however, but have fuelled speculative bubbles in stocks, credit and real estate and contributed to expanding socio-economic inequality.

Why did Kim and other democratic reformers choose to restructure the Korean state's financial policies? The answer to this question involves the political embedding of the Korean economy in tight state-business networks between the old regime and the chaebol. Many within the civic movement and reform camp did not really see this nexus as something to be retained even though many developmental state theorists had defended this nexus as an alternative to neoliberalism. Many key reformers viewed the high-debt model and the dominance of large conglomerates as largely predatory. In order to understand this antipathy, it is important to keep in mind that the developmental state was not exactly known as such, i.e. as ideal type of economic model, by most Korean reformers and even neo-Weberian scholars until almost after it was restructured. The Korean social formation debates that were part of the wider 80s and early 90s democracy movement regarded the state as either a dependent, neo-colonial entity or as a variant of state and monopoly capitalism, as discussed below. Both radical and liberal forces saw the nexus between the state and the large conglomerate groups as a source of corruption and political repression: with business propping up officials through gifts and bribes from which the state reciprocated by intervening in conflicts with labour and social movements.

For Kim Dae Jung, the promotion of the market economy was seen as a way to dislodge the nexus between the state and domestic capital that had informed the old regime

and re-embed the economy in more transparent relations. He was joined by neoliberal bureaucrats that also hoped to distance themselves from the old guard. For many prominent reformers involved in generating the consensus for Chaebol reform, including many from the minority shareholder movement that evolved out of the CCEJ and PSPD, the chaebol were described as “dinosaur-like” monsters that “took the whole economy hostage” (Chung 1997, 18). The pro-chaebol policies of the developmental state were not seen as a viable economic model. Key economic reformers, many of whom were trained in Keynesian economics either in Korea or abroad, questioned the existence of a putative 'developmental state' model of development, such as was championed in the 1990s by neo-Weberian theorists of East Asia's rapid industrialization.<sup>4</sup> Instead, they argued that there only Keynesian and neo-classical models available for understanding the Korean economy. Furthermore, the corporate governance structure of the chaebol was not seen as a virtuous institution, but rather one in need of reform in order eliminate illegal practices such as illegal transfers of ownership between members of ruling families as well as the illegal tunnelling of funds, contracts and other resources between cross-owned firms: practices that were regarded as usurping the opportunities of individual shareholders.

Bae Gyoon Park (2012, 492) notes that in its early stages, the minority shareholder movement and its campaign to import shareholder value forms of corporate governance was welcomed by the public. However, in the restructuring that took place after the 1997-98 financial crisis many of the minority shareholders in large Korean banks and corporate firms became transnational speculative funds, and the minority shareholder movement became seen as aiding and abetting neoliberalization (Park BG 2012, 492).<sup>5</sup> During the early-mid 2000s, the shareholder view of the firm was sharply criticized by industrial policy advocates in the reform camp. This group of reform economists were largely trained in institutional and heterodox economics and tended to take a developmental view of the firm. Instead of shareholder capitalism, they emphasized the virtues of patient capital and bank-based financial systems. The support and creation of large, diversified conglomerate groups as a determined outcome of the financial policies of this model. Cross-ownership practices similar to the interlocking 'grupu' and keiretsu companies in Japan was seen as limit on speculative markets for corporate control that characterize Anglo-American capitalism. These economists argued that intra-group shareholding has been innovative, acting as a mechanism to increase capital by utilizing leverage to create more diversified assets or to spread risk across (formally) independent firms.<sup>6</sup> Thus, for industrial policy advocates, the Chaebol were considered as a valuable developmental institution that could be part of a new coalition to create a welfare state.

Hyoung-Joon Park (2013) uses the felicitous phrase "progressive critiques, conservative solutions" to encapsulate these debates about the nature of Korean capitalism between shareholder and industrial policy camps. Park criticizes the fact their prescriptions tended to be centered around either a nationalist view of the firm that defended the Chaebol against foreign capital (ignoring, in Park's opinion, the fact that the Chaebol were already an part of transnational finance by this time) or promoted, in its place, an idealized understanding

of shareholder capitalism. By focusing on the firm and on the virtues of particular types of private owners (national vs. foreign, minority shareholder vs. ruling family), both camps propose solutions that are in many ways inimical to the wider progressive demands in as much as they are based on a solution that favors one class of capital-owners above others instead addressing, or taking as a point of departure, important inter-class dynamics that lead to inequality and injustice. The recent debates surrounding economic democracy on the liberal-left largely rehashed these earlier tensions.

## **The Current Debates**

The current debates were started by a jointly published book by Ha-Joon Chang, Jeung Seung-Il, and Lee Jong Tae (2012) entitled *Making the Right Economic Choice: Neoliberalism Versus Productive Welfare* in which they argue that progressives should make use of the positive aspects of past regimes, including industrial policy and control over speculative finance. Shortly after its publication it elicited responses from a variety of left-liberal economic reformers in the pages of several popular journals and newspapers, some of which have recently been published in book-length form.

One of the first criticisms of Chang, Jeung, and Lee's position took the form of an open letter from Chung Tae-in, a former economic advisor to Roh Moo Hyun who had resigned from his post over Roh's decision to support the Korea-US Free Trade Agreement. Chung (2012) argued that Chang's camp was too hasty to endorse the virtues of the Chaebol and argued that the welfare state movement (Chang's camp) should work together with the economic democracy movement (a short-hand for reformers associated with the shareholder reform movement and other reformers that endorsed the idea of a 'fair-market economy' that balances the interests of small and large capital).<sup>7</sup> In response to Chung and other criticisms, Chang, Jeung, and Lee attacked their critics for embracing neoliberalism. Their argument rested on what they defined as the tendency common of a number of progressive intellectuals to see economic democratization from "the viewpoint Chang, Jeung and Lee argued that such a 'progressive liberalism' has its roots in the history of Korean progressive groups from the democratic movement and their various understandings of Korean capitalism from the social formation debates through to the present.

This criticism was perhaps aimed in particular at a key participant in the recent debate, Lee Byeong Cheon, whom they associated with the 'fair market economy' camp in which they lump reformers Kim Sang Jo, Chung Tae-in, Chang Ha-Sun, Lee Dong Geol and others, which, in reality, ignores some of the many differences among these different reformers whose view range from more orthodox views on shareholder capitalism to a more social-democratic, left-Keynesianism. Nonetheless, all share an antagonism to the practices of chaebol families and, while their modalities of dealing with these problems diverge, Chang's group considers them all to fit under the category of 'progressive liberalism.' At first glance, Lee Byeon Cheon is an odd choice of a target as he has been

very active in contemporary progressive discussion of Korean modernity (particularly the theory of developmental dictatorship) and attempted to play a mediating role in earlier debates between different economic policy camps within both PSPD's Participatory Economy Committee and the Alternatives Network (Taeon Yeondae). Lee was also once a prominent marxist theoretician of the Peoples Democracy (PD) tendency during the social formation debates. PD, as Marxist theorist Jeong Seong-Jin (2010, 199-200) remarks, "conceived Korea as embodying neo-colonial state monopoly capitalism, requiring an anti-imperial and anti-monopoly-capital people's democratic revolution," while the other major tendency in these debates, National Liberation (NL), "argued for the anti-imperial and anti-semi-feudal people's democratic revolution to overthrow a colonial semi-feudal Korea."<sup>8</sup> According to Chang, Jeong, and Lee, their critics among progressive liberals still tended to see "Korean capitalism represented by a Park Chung-hee-type state-controlled economy and the Chaebol group system as 'abnormal' capitalism.

The representative title is 'pariah' capitalism (Kim Sang-jo). It has been described as 'half-colonial' capitalism (old ruling group (mainstream) of the United Progressive Party) or 'new colonial state monopoly' capitalism (Lee Byung-cheon was the representative proponent in the past) as well. The reason these adjectives are used is because Korea's capitalism has been distorted compared to the capitalism of advanced countries and has developed immorally, so it is said that without erasing such a past, Korea's capitalism will not develop into 'normal' capitalism (Chang et al 2012c, np).

What Chang, Jeong, and Lee are attacking here is what they see as a tendency of progressive intellectuals to produce representations of the time and space of Korean capitalism that depict it as a holdover from the imperial past, a representation that is informed by a latent, evolutionary stage-theory of capitalism inherited from earlier progressive debates. For them, critics who embrace 'progressive liberalism' negate the institutions Korea has developed in favour of a putatively purer or refined form of capitalism based on shareholder value (i.e. chaebol reform) as a necessary precursor for the development of welfare-oriented policies. They argue that by regarding Korea as a pre-modern or 'pariah capitalism,' their critics presuppose "advanced countries such as the U.S. and England as being 'noble capitalism' and 'noblesse oblige capitalists'" (Chang et al 2012c).

As discussed briefly above, reformers associated with the minority shareholder movement are largely focused on the practices that the Chaebol have used to maintain family control of the firm such as exploiting loopholes in the tax and inheritance laws; for example, they point out that Samsung has, in the past, also used non-profits, equity-linked convertible bonds and warrants, and pre-sales of unlisted shares to pass down control rights to new generations of the family without having to pay inheritance taxes. Noting that such practices are essential for ruling families to maintain control, reformers from the minority shareholder/good corporate governance movement argue that if the chain of circular equity investment is severed,



controlling families could be left with insufficient shares to control their subsidiaries (cf. Hankyoreh 05 Jan 2013). Separating the groups would enable the government to establish a fair market and eliminate practices such as the preferential funnelling of contracts to subsidiaries and illegal inheritance transfers to younger generations of ruling families. Chang, Jeong, and Lee take issue with this perspective and argue that the weakening or dissolving of the Chaebol through intensifying restrictions on total investments and prohibitions on cross-shareholding will only amplify shareholder pressure, making progressive labour and welfare policies difficult to implement (2012c, np). They argue that their critics are not able to distinguish between Chaebol families and the conglomerate group system<sup>9</sup> (Chang et al 2012b), which for them is a non-liberal system and distinct form of capitalism opposed to models based on shareholder power. Against what they see as a putative stagism of progressive liberalism, they argue that a pure market capitalism has never existed: “if you scrutinize the history of American and European capitalism, you will realize that they developed through underhanded and abnormal means with rampant corruption, anti-democracy, and pariah and government intervention” (Chang 2012c, np).

In contrast to liberal economic reform, Chang, Jeong, and Lee argue that the social and democratic national control of capital is necessary for establishing economic democracy in the sense of a Swedish-style welfare state. In order to secure this, taxes need to be imposed on the owners of capital and domestic investment increased. His camp argues that an agreement needs to be made with the Chaebol in order to generate consent for such a project. One way to do so would be to preserve the management rights of the Chaebol and use this concession to bring them into a social compromise. Chang, Jeong and Lee refer to this strategy as following from a wider strategy of 'provisional utopia'<sup>10</sup> that benchmarks the Scandinavian welfare state as a model, but others regard their proposals for preserving the management rights of the Chaebol as a dangerous compromise that neglects other key aspects of social democracy.

### **Pariah or Provisional Utopia?**

There are historical echoes here between Korean left debates and the debate on Japanese capitalism among Japanese marxists and the post-war Uno school within Japan in as much as one can identify a tendency in both sets of debates to search for purer forms of capitalism, alongside an endorsement of a stage theory of historical development. Barshay (2004), for instance, examines the basic principles of Japanese marxist philosopher Kazuo Uno's project, which played a significant role in debates surrounding Japanese capitalism. Barshay describes how Uno's system was centered around providing a model of “pure capitalism” and its “laws of motion” that could validate historical materialism's prescriptive demands for revolutionary change (Barshay 2004, 92). This project was complemented by an elaborate stage theory. As Barshay points out, a key argument of Uno's was that the "tendency of original capitalism to purify (thus allowing the abstraction of the basic principles to begin with) was reversed in the era of imperialism



and monopoly." To overcome this problem, Uno prescribed a conjunctural 'analysis of current conditions' (genjo bunseki) that would 'subsume the basic principles as mediated by stage-theoretic considerations' (Barshay, 92). Here the problematic of 'early vs. late' formed a key problematic (Barshay 134), but one in which the possibilities of a reductive form of stage theory remained latent and potentially depoliticizing if applied in a way that was used to strengthen capitalist power relations rather than contest them.

Likewise, in contemporary Korean debates over economic democratization, the role of the chaebol in the Korean development is very much approached from a position that either posits it as either an essential part of the unfolding of economic democracy or as an obstacle to it. Even though Chang's camp produced a provocative critique of shareholder value, their position seems to rest on a developmental view of the firm that, although it provides a more historical account than neo-classical economics, also abstracts away from the wider time and space of Korean capitalism, which is one of the reason for their conflict with the progressive liberals.<sup>11</sup> For example, Chang, Jeong and Lee (2012c, np) argue that

we should make use of the positive elements but disregard the negative elements (labor oppression) of Park Chunghee's economic system... we should wholeheartedly accept the positive legacy of the Park Chung Hee regime, such as control over foreign finances, control of shareholder capitalism, and the aggressive fostering of industry... the reason we talk about the positive elements of the Park Chunghee regime is because there are important roles that the control over financial markets and industrial policies, etc. play in the economic system that we pursue (2013, np).

This raises a thorny theoretical question as to how, ontologically, one might separate the shadows from the light of the Park Chung Hee regime, whether it be in the form of separating finance from labour, or the national state from the wider Cold War context in which it pursued growth first strategies of rapid industrialization. While, methodologically, it may be possible to separate finance from labour and the national from the international economy in order to produce ideal-type distinctions between financial systems, in reality these factors and spaces of development are intimately connected. So, while Chang, Jeong, and Lee are correct to argue that finance was relatively de-commodified or nationally embedded in the sense of formal limits on speculative activity surrounding markets for corporate control and restrictions on real-estate speculation during the Park Chung Hee period, it is important to remember that such credit rationing was also facilitated by the repression of labour and domestic demand, which helped produced high profit rates and facilitated the funnelling of discounted foreign credit that allowed firms to capitalize on discounted credit and channel it into new investments.<sup>12</sup>

In the debates among different perspectives, Chang, Jeong and Lee were accused of thus selectively interpreting history by constructing an ideal-type of financial system from the

policies of the dictatorship that abstracted away from history and hastily praised the chaebol as a developmental institution. Lee Byeong Cheon argues that in contrast to the fair market economic camp, Chang's group's proposals risk not standing up to the Chaebol. He also criticizes them for representing the problem as national vs. international capital, arguing that, for example, Hyundai's already unfair policies towards its irregular workers and treatment of SME's are of its own doing and not the result of external shareholder pressure (Lee BC 2012, np). Lee and other critics argue that the proposals by members of Chang's camp to preserve the management rights of the Chaebol is giving away too much and doubt that such a strategy would be effective for the development of a welfare state. For example, in his letter to Ha Joon Chang, which sparked off much of the current debate, Chung Taein, former advisor to Roh who broke ranks over the Korea-US FTA and head of the New Society Institute, made a similar argument.

Even if we take back power again, your suggestion to tell the Chaebols “we will guarantee managerial control, and you help us create a welfare state through massive tax hikes” will be flatly rejected... Moreover, Chaebols can protect managerial control even under the current system, and do not feel particularly threatened (Chung TI 2012, np).

Chung and others doubt that Chang's group proposals would effectively discipline the ruling families (i.e. by not separating the ruling family from the group) and instead offer them ways to preserve their power.

Chang's co-writer Jeong Seong Il has previously argued (cf. Jeong 2006) that one way to allow the Chaebol to preserve management rights would be to create public foundations and appoint their heirs as directors. This was seen as an alternative compromise in which the public foundation would play the role of the majority shareholder, stabilizing corporate governance and eliminating the need for illegal succession practices.<sup>13</sup> Chang and Jeung's critics have argued that this strategy is unrealistic, as Samsung has used public trusts before to disperse ownership of their businesses, only to use these trusts as a way to buy back the stocks so that power could be transferred directly to the next generation. Instead of being symbolic then, such trusts could easily be manipulated to enhance direct family control of corporate power. Reformers like Lee Byeon Cheon and Kim Sang Jo (identified by Chang et al as progressive liberals) are thus skeptical of the idea that preserving management rights would actually restrain the chaebol from illegal practices or provide an incentive to have them consent to social democratic policies.

During the debates, Kim Sang Jo argued that preservation of management rights is too big of a carrot and that legislative policies, such as revision of capital market laws to make salaries of firms' board of directors transparent and introducing punitive damages for economic crimes as more important. Kim responded to Chang's criticisms by trying to minimize the differences between himself and the Chang et al group, noting that

limits on cross-investment are not the primary task of economic reform and that since 2009 he has approved the concept of an intermediate holding company that would facilitate conglomerate group control, though carefully regulated so that illegal transfers of wealth, funds, and jobs can be effectively regulated. In other words, he continues to be against retaining illegal family control practices but has moderated his position to somewhat sanction more a transparent intra-group ownership structure. Kim argues that he prefers the stick (strong legislative and institutional restrictions of abuse of corporate governance) over the carrot (preservation of management rights) in the quest for economic democracy. Finally, Kim objects to the argument that chaebol reform amounts to substantive economic democratization; however, he does insist that some form of corporate governance reform is the starting point (Hankyoreh 09 Sept. 2012).

These two core liberal-left positions were publicly dramatized in two recent events in which both intellectuals from camps were invited to present their views at the Samsung Economic Research Institute. Ha Joon Chang delivered a talk titled, "The Future Course of the South Korean Economy," in which he criticized popular objections to circular equity investment and diversification by conglomerates. Chang argued that diversified conglomerates were a phenomenon present in all advanced capitalist countries and that "circular equity investment was inevitable in the past because things like holding companies and cross-ownership were prohibited," adding that "to say it's bad now is to disregard its history" (Chang HJ quoted in Kim JC 2012, np). This generated criticisms from Chang's critics, who argued: "When you're talking before Samsung, you need to point out what's not right. The problem is that he did nothing but flatter them." (Kim JC 2012). In contrast, when Kim Sang Jo accepted an offer to give a talk entitled 'economic democratization and Samsung' at the same institute, and to a room of Samsung presidents, Kim Sang Jo began his talk by asking: "Why is it that, despite Samsung's remarkable management results, there remains an equal mixture of light and darkness in the company? Why is it that, even as Samsung makes such smart business decisions, its decisions about ownership structure are so hard to understand?" (Hankyoreh 18 July 2013, np). He followed up by announcing that he would be filing a stockholder derivative suit against six construction companies, including Samsung C&T, on charges of collusion in the Lee Myung Bak governments Four Rivers Project and, before giving his talk, he also reported Samsung CEO Lee Kun-hee to the prosecutors for breach of trust on a recent Samsung C&T share sale (Hankyoreh 18 July 2013, np). While one can admire Kim Sang Jo's tenacity to take on the chaebol publicly, the recent debates between both camps reveal that the strategies of both sides for overcoming these problems are still based on the perspective of rival capital-owners (cf. Jeong 2009).

In an intervention into earlier debates surrounding economic policy under Kim Dae Jung, Cho Young Chol argues that chaebol reform was seen as a technocratic problem and was not designed in a way that would substantively overcome the legacy of developmental dictatorship (Cho YC 2006, 132-133). Cho argues that any solution must be oriented toward social justice, and in particular, towards those that had their rights sacrificed for Korea's rapid development. The intellectuals who participated in the current debates were acutely aware of

this fact and both camps often criticized each other for neglecting the variety of unequal relations between workers, contractors, small and the narcissism of small differences -- i.e. to the question of the chaebol -- rather than towards a substantive outline for economic qua social democracy in South Korea.

This is not to say that participants in these debates don't mention other aspects of social control of capital – for example, Chang's camp argues that they pursue an “economic system in which the economy is run democratically in various fields through the protection of workers, fostering of cooperatives, control of finance, industrial policy, etc., putting the universal welfare state in the center” (Chang et al 2012c). However, they do not seem to make the same strong institutional demands for trade union representation, solidarity wages, and socialization of capital stock that have accompanied other social democratic movements. This has led contemporary critics of the debates between the industrial policy and shareholder camps, such as Marxist economist Jeong Seong Jin, to argue that both sides of the debate neglect the historical context of social democratic politics. Taking issue with the Chang camp's proposals in particular, Jeong remarks,

Chang's model of a social compact is fundamentally different from the Swedish model in that it does not recognize the organized workers as key partners in the social compact. Chang includes, instead, the so-called 'common people'. However, since the organized workers are one of the most important social forces in Korea since the 1987 Great Workers' Struggle, any proposal for a social compact without their inclusion is simply unrealistic. Indeed, the social compact and the welfare state in Europe, especially the Swedish model, were the product of the historically unprecedented surge of mass revolts after the 1917 October Revolution. Any attempt to extrapolate or benchmark the Swedish model outside of its historical context of class power relations is just a pipe dream (Jeong 2009, 162).<sup>14</sup>

This lack of historical context may be one reason why, more recently, intellectuals outside of these camps have tried to intervene in this larger debate by discussing the historical development of social democratic politics; Hong Gibin's (2011) book *Wigforss: Provisional Utopia and Welfare State* should be regarded as key text in these regards: one that attempts to provide a broader lexicon of social democratic politics and policies in their historical context.

## **Conclusion**

After Park Geun Hye was elected and announced her own economic democratization policies. In the spring of 2013, she introduced several bills under the slogan of economic democratization. These included the bills on old age pensions, childcare, in-house



subcontracting, additional cross-shareholding, rights of small franchise-store owners, vacation pay, and laws restricting shareholders in financial companies that have been charged with embezzlement. After the introduction and the passage of 6 of the 7 bills, Park Geun Hye announced that her government had completed the task of economic democratization (Oh 2013, np) and that now the emphasis of her policies has shifted to a project of fostering the 'creative economy'. In an about-face, the Ministry of Strategy and Finance also announced that it would look into relaxing the rules on additional shareholding and funnelling for companies that were facing insolvency and in other special cases under the government's new plan to boost the economy. In this way, the Park government seems to be continuing in the tradition of previous conservative governments, like that Roh Tae Woo's for example, that both supported the chaebol but had also maintained restrictions upon their activities due to reservations about the chaebol as potential rival to the ruling conservative's political power.

While authors have argued that Park's policies seem fit to continue a pattern of Korean democratization as a process of passive revolution from above (Gray 2013; Choi 2005), a complimentary reading of Park's ambivalent policies towards the Chaebol might suggest that they were in part enabled because of the primary focus on corporate governance on both sides of the liberal-left economic democracy debate. This speaks to the need for a more progressive discourse of economic democracy on the left, one that can better connect it to egalitarian demands and policies. Cho Hee Yeon, one of the more eloquent progressive critics of Korean democratization puts it, argues that in order for Korean democratization to continue to be consolidated -- having faced setbacks on the issues of socio-economic polarization due to the neoliberalism of liberal democratic governments and rollback on a wider range of procedural and other issues under conservative regimes since then -- a solution to the problem of the monopolization of power by socio-economic groups such as the chaebol, but also the wider capitalist class, needs to be found. However, such 'de-monopolization' should not simply be thought of as economic liberalization or the retention of monopoly power through developmentalist compromise, but rather as a process of 'socialization' and 'equalization' that continues to consolidate democracy through the relative dis-integration of the power socio-economic monopolies in relation to the power of diverse subalterns (Cho 2012, 24-30). Without egalitarian reform, the benefits of peaceful coexistence and/or commensurability in political debate remain limited. While Cho himself does not provide a blueprint for de-monopolization in the Korean context, we might draw from his argument the point that economic democratization needs to be conceptualized in a more expansive manner that moves beyond the confines of shareholder and institutional critiques of corporate governance. At an intuitive level, participants in recent debates seem to have grasped this problem, but their solutions remained locked in place.

Since Park introduced her own economic democratization policies, however, there has been some shift in discussions surrounding the concept, but this comes after Park has effectively used to the slogan to get elected and quickly retreated from more substantive demands, declaring economic democratization to have been achieved. Nonetheless, critics of Park's



welfare policies have been somewhat effective in shifting the debate towards more substantive concepts associated with social democracy including ideas such as universal versus means-tested welfare, as well as social citizenship. There has also been a recent boom in books and publications on social welfare, social economy and cooperative economics. Nonetheless, much deeper discussion, debate, and coordination with existing social movements is going to be needed if reformers and the Democratic Party in particular are going to be able to move beyond the discourse of economic democracy as largely an issue of corporate governance to a wider strategic discussion of the egalitarian policies needed for a viable, Korean social democracy that consolidates the demands of diverse subaltern groups. This is particularly necessary if future opportunities to challenge conservative understandings of economic democracy with substantive policy ideas are to result in more than mild concessions from above.

## Notes

1. This is not to say that the election went untinged by Cold War rhetoric, but most of it aimed at the United Progressive Party candidate Lee Jung Hee after she directly challenged the Park Geun Hye in the debates. Lee argued that "The Saenuri Party and Park Geun-hye are the roots of collaboration and dictatorship and do not have the right to sing the national anthem" (Hankyoreh 05 Dec. 2012), and stated that her role in the election was to reduce the vote for Park; however, some argue that her actions galvanized the right and brought out more conservative voters who perceived the liberal-left as a threat to the conservatives.
2. Interviews with grassroots labour activists and various progressive intellectuals active in discussions surrounding neoliberalism, economic reform and welfare state development, July 2013.
3. Kim Dae Jung's economic platform was called the Mass Participatory Economy and Roh named his government the 'Participatory Government.'
4. Interview, minority shareholder movement activist, Seoul, 2007.
5. Part of the reason for this backlash was, in part, the modality of working through corporate ownership structures. Members of this movement would eventually set up their own activist-oriented Korean Good Corporate Governance Fund in 2006 (and shut down in 2012 due to a very poor track record) which was managed by Wall Street's Lazard Asset Management and aimed to invest in firms with good corporate governance.
6. For example, Chang and Shin (2003) argue that cross-ownership acts as a mini-capital market for member firms which can be a benefit from mobilizing resources through direct subsidies and loan guarantees to projects the group deems strategically important. They thus point that inter-group ownership can be particularly useful in contexts where capital markets are underdeveloped, as inter-linked firms can provide 'various indirect financial

supports through purchasing products and inputs at strategic prices and transferring managers and other personnel' (Shin and Chang 2003, 26-27; cf. Jeong 2004).

7. The welfare state movement, however, should not be seen as external to the economic democracy movement, and by the end of the debates, one could say that welfare state policies were considered a key part of economic democracy. The meaning of the term exceeded the confines of association with the minority shareholder movement.

8. Jeong Seong-Jin argues that the position of Yoon So-Young and Lee Byeong Cheon in these debates was that capitalist development in Korea had been characterized as "strengthening monopoly cum deepening dependency" – (Lee and Yoon 1988, cited in Jeong 2010, 200).

9. One could compare this to the distinction between the prewar Japanese Zaibatsu (the same characters denote Chaebol) and the reformed post-war Keiretsu groups, which excluded the ruling families.

10. This term was coined by Swedish Social Democrat Ernst Wigforss who argued that there was not perfect road to socialism and thus there was a need for social reformers to identify political objectives to implement while waiting for a more perfect political theory. Chang et al appropriated this term from Hong Gibin who wrote a book in 2011 entitled: *Wigforss: Welfare State and Provisional Utopia*. Coincidentally, Hong is also the translator of Karl Polanyi's *The Great Transformation into Korean*. However, due to their reliance on developmentalist understandings of the firm, they tend to use it in a different sense than Wigforss.

11. Ironically, while Chang's group accuses progressive liberals of remaining confined in the teleological structure of the social formation debates (particularly the PD theories of monopoly capitalism), they fail to see that their perspective retains aspects of the national liberation model inasmuch as it valorizes domestic against foreign capital. Regardless, neither discourse retains the orthodoxy, nor consequently, the strong connections to mass-based social movements as the original debates once had.

12. Kim Soo Haeng and Park Seung Ho (2007, 184) make a similar criticism of both developmental state and developmental dictatorship perspectives for not connecting the Park Chung Hee system with the Cold war and the widening class struggles that accompanied Korea's rapid development within that system: the neglect of which means that they "cannot understand that the terrible political dictatorship was an inevitable component of that development."

13. "If the government were to impose full inheritance tax by law on everything passed down from the chairman to his son, the Samsung family would have to sell their shareholdings or part of the group's affiliates to pay the amount, which would be quite large, indeed. Weakening share ownership by the Samsung family may destabilize the group's management... One option is for the chaebol to set up public foundations. By allowing such public foundations to play the role of major shareholder, the chaebol can donate part of their profits to society. With the public foundations becoming the core shareholder of holding companies, chaebol owners could see their corporate governance stabilized. In this case, the chaebol family members can maintain their honour by sitting on the board of the public foundation" (Jeong 2006, np).

14. Chung (2012, np) makes a similar criticism. "Even if we introduced everything that

Sweden did into Korea, we couldn't replicate the Swedish model. For example, we cannot imagine Samsung operating like Wallenberg, nor the KCTU (Korean Confederation of Trade Unions) becoming as powerful as the Swedish Trade Union Confederation (Landsorganisationen i Sverige (LO)), nor an epochal idea such as 'solidarity wages.'"

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**Territorial Tricks:  
The Sovereignty/Accumulation Nexus**

*James D. Sidaway, Carl Grundy-Warr and Chih Yuan Woon*

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## 1. Introduction

‘It is no more possible to stabilize what sovereignty means and how it matters to those who invoke it than it is to forget the historical and cultural embeddedness of indigenous peoples’ multiple and contradictory political perspectives and agendas for empowerment, decolonization and social justice’ (Barker, 2005, 21)

Sovereignty can mean many different things. However, the link between sovereignty and territory is enshrined in the realms of international law and is the very ‘concrete manifestation’ of nationhood that the Thai scholar, Thongchai (1996) discusses with reference to the mapping of ‘geobodies’. Thus, if ‘territory’ is viewed as a contingent, malleable and flexible idea within geobodies and on their borders, then notions of sovereignty need to be viewed as multiple and flexible. As we know, they are frequently contested and subject to competing claims.

This paper works between two axioms:

1. That the state tends to become capitalist: this process/relationship is at the heart of much politics, including the resistances, countervailing moves, compromises and transformations that Polanyi, Gramsci and their successors (and all of us) grapple with. An array of Marxian literature (and this would include Hardt and Negri’s *Empire* and Bob Jessop’s and related oeuvres) excavates the intimate relations between capitalism and the state, seeking to specify the relative autonomy of the latter and the necessary territorial/spatial moments of their imbrications.

2. Our second axiom is that proposed two decades ago by John Agnew (1994) is his analysis of the geographical assumptions of international relations theory, where he argues that IR

(and much other social science) has tended to assume a trans-historical state as the key actor, fetishizing it as the container of social relations. He terms this ‘the territorial trap’. Agnew’s warning of the seductions and illusions of the trap have been extensively debated since.

The territorial trap also invokes the power of state-nation-citizen nexus (Soguk 1999) in political imaginations/horizons; as well as the various ways in which state territory is reified in the ‘world political map’. However If we accept both of these axioms, the relationship between them opens questions about the operations of sovereignty and territory.

ASEAN is one fertile terrain to investigate these. ASEAN as a durable, expanding and expansive grouping, which has attracted much attention due to its distinctive character, and relative lack of formal institutionalization compared with EU. And of course, ASEAN is a product of specific historical circumstances (postcolonial anxieties and Konfrontasi which became caught up with the cold war and the decolonization). Although well-rehearsed, these histories should be emphasized to note the internal fractures and uneasy tensions within ASEAN states, many hinging on differing conceptions of sovereignty and territory.

First sovereignty – elsewhere one of us has written of ‘sovereignty scapes’ to bring out the variable and context-dependent forms of sovereignty, insisting that we think of these not as more or less deviations from a perfect sovereignty that exists somewhere (either in the ‘Westphalian nation-state or a treatise on law or political science). It is the link between sovereignty and territory that is significant here. Theories of Territory (Elden) have focused primarily on the Euro-centric concept of territory. The issue of territorial sovereignty is certainly related to Westphalia, but there are multiple traditions, practices and performances of sovereignty that have complex territorial alignments, particularly viewed from an historical perspective within Asia.

In similar terms, Joanne Barker (2005, 21) asks ‘For Whom Sovereignty Matters?’:

‘There is no fixed meaning for what sovereignty is – what it means by definition, what it implies in public debate, or how it has been conceptualized in international, national or indigenous law. Sovereignty – and its related histories, perspectives, and identities – is embedded within the specific social relations in which it is invoked and given meaning.’

Amongst those invocations is territory; where sovereignty cites land, sky and sea.

## **Territorial Tricks?**

Territory may be viewed as a political technology (aspects of whose history as thus have recently been traced by Stuart Elden). We should still elaborate upon what this term means. Territory, in practice, can also become symbolic, institutional, a unit of analysis, a homeland and Boundary making is related to territory, and this we may wish to trace the precise history of the creating of particular boundaries and territories.

In the ninetieth and twentieth century (what the late Eric Hobsbawm called the ages of capital and empire) its long trajectory was consolidated in states and later (via the anti-colonial revolutions) became linked to new post-colonial sovereignties.

The ASEAN members are amongst those post-colonial states. The extensive literature on ASEAN (which may be sampled in the first and second ASEAN Readers, 1992 and 2003, compiled by the ISEAS in Singapore) point to how ‘the Asean way’ performed and sort to enact a certain notion of sovereignty/territory in which sovereigns recognize each other and mark their territorial limits We should spell out the central and much discussed tenets of ASEAN. However, the fact is that each of ASEAN’s members tend towards reifying territorial integrity and sovereignty, sometimes to the embarrassment of the regional organization. E.g. over island sovereignty disputes, differences over the South China Sea, border disputes such as the Preah Vihear Temple between Cambodia and Thailand, and the issue of transboundary pollution. Nonetheless, regional economic networks and ethno-cultural connections point to other scales and spaces. To some extent ASEAN (and the ADB) has enabled these – thus roads, bridges, airports and checkpoints are where the sovereign-territorial space and wider flows are regulated. These rework territories.

Such infrastructures demand our critical scrutiny. For example, Harms notes that:

p. 158: ‘...roads in Vietnam have formed an important yet largely undertheorized element in the social organization of space that needs to be added to accounts of Vietnamese village morphology. Scholars interested in the “Vietnamese village” need to consider the way that roads themselves often constitute an important organizing principle around which village society now organizes.’

Moreover, sovereigns and agents linked to them engage in a series of what we might term ‘territorial tricks’ that juggle the relationships between sovereignty, territory and accumulation. We all know that crossing ASEAN borders costs money. But broader examples are:

1. The bounded free-trade zone or export processing zones (ASEAN is full of these, sometimes within growth triangles). Aihwa Ong has thus talked about graduated sovereignty



and zonal capitalism. And Jonathan Bach (2011) of ‘the interplay of exception and rule that creates intersections for networks, markets and political rule.’ And one of us elsewhere has written about ‘enclave space’, in which sovereignty is uneven and differentially articulated with global production networks. Bounded tourist resorts (in Bali and Bintan for example) share something in common with the zones of production. There are plenty of examples elsewhere – including striking new ones, such as in Pakistan and Africa that embody a Chinese geopolitical/accumulation role.

2. Equally striking in ASEAN, are concessions in (Cambodia) or around (Laos, Myanmar and Thailand) the borders of some states for foreign-owned/run casinos: taking advantage of the fact that China permits these only in the enclave of Macau. The issue of land and resource concessions is relevant, but hardly unique to the region. We should perhaps stress on how these concessions completely transform issues of resource access, identity and sovereignty in various ways. A similar phenomenon is enabled by Native American sovereignty in parts of the United States.

3. Seignorage (the difference between the value of money and the cost to produce it) is implicated in territorial tricks too – especially as money circulates across a variety of territorial jurisdictions. Most work on this is about US hegemony and it’s re-working – across the Pacific and Atlantic. Beyond that however orders and customs are moments in sovereign/currency interaction – as in the study by Brenda Chalfin (2010) of ‘Neoliberal Frontiers: An Ethnography of Sovereignty in West Africa’.

This is complex, but, returning to Asia as Erik Harm’s (2011) argues in Saigon’s edge, urban/rural and inside/outside enable money to have more value if it comes from outside but can be used to accumulate resources according to the standards of the inside. By ‘numerous schemes’, that all depend on the ability to control the movement of money, between Dollars and Dong:

‘Now imagine that one could transform money (M) to more money (M i) without suffering through the agony of the middle passage from M to C....A passage is still required, but this is a passage not through labor but through and across social space’  
(p. 82)

Moreover: ‘the economy of remittances....works only because it enables one to cross a significant social-spatial divides by conveying the medium of money...’ (p. 83). Here we enter the phenomena of the remittance-rentier that has been extensively commented on in analysis of the Filipino state for example.

### **The Filipino State and Across The Sulu Zone to the Three States on Borneo**

The Philippines case – once the western frontier of American empire and its collisions

with the other globe-encircling Spanish commercial/territorial empire –offers us some instructive exemplars of the nexus of territorial tricks:

1) Historicizing the claims and the porous ‘borders’ between Mindanao and Sabah:

The Sultanate of Sulu agreed in 1878 to lease the Sabah territory to The British North Borneo Company in return for arms and defensive support to fight the Spanish. The Sultanate conveyed full title and rights to Sabah to the Philippines in 1962. Malaysia disregarded the conveyance and assimilated Sabah within the newly formed Republic of Malaysia in 1963, along with Singapore, Malaya and Sarawak. The Philippines broke off relations with Malaysia. An accord between Malaysia and the Philippines in 1966 expressed agreement that the residents of Sabah should be able to determine where they belonged, but it appears to have gone nowhere. Philippine presidents have not pursued the Sabah matter in the interest of building stronger commercial relationships with Malaysia. But the claim still exists. Although there are an estimated 750,000 Filipinos residing in Sabah illegally, Malaysian officials have not actively convicted these illegal migrants because the agricultural businesses need these workers. Identities, territory and sovereignty cross cut in complex ways here and mechanisms to regulate flows of people subsumed under broader goals of capitalist accumulation.

More widely, the island of Borneo is an intriguing site to trace sovereignty/territory/accumulation> the island is divided into three states, one of which has no central bank, but uses the currency of another state over a thousand kilometers away (Brunei uses Singapore dollars as its currency). Borneo was only ever united once under a single sovereignty: the short-lived Japanese territorial Empire of the 1940s. Borneo’s twentieth century history includes a family-state (the white Rajahs of the Brooke family) administrating a large territory in Sarawak, that was subsequently incorporated into the British Empire then became the north-eastern component of the post-colonial federation of Malaysia. Another family-state however managed to consolidate its sovereignty (long under British imperial protection) becoming the independent sultanate of Brunei in 1984. And the longest border across the island: that between East Malaysia and Kalimantan (Indonesia) itself becomes, by virtue of the different legal/political systems that meet along it, the domain of what Michael Eilenberg (2012) calls ‘intersecting spheres of legality and illegality’.

2) Another case are autonomies and ‘states within a state’. This is a term used by Filipino scholar, Santos (2010) to describe the Autonomous Region of Muslim Mindanao (ARMM). ARMM has a government ruling over a specific territory within Southern Philippines but it still remains an integral and inseparable part of the national territory of the Philippines Republic. The government of ARMM has legislative powers in the autonomous region but not in areas like foreign affairs, national defense, foreign trade, coinage and fiscal and monetary policies, etc. Many Filipino scholars have pointed out that the Manila government still has and wants to maintain a huge influence in ARMM given that 75% of the natural resources within the Philippines are located in Mindanao. These and labour flow (via a variety of licit and illicit chains) across the borders that partition the Sulu Sea and northwards, via Manila.

Once again, complex configurations and dynamics related to territory, sovereignty and accumulation.

Everywhere, 'territory' is malleable --- it is frequently being emptied and filled, altered and transformed, particularly in relation to the state and capital accumulation. In large parts of Asia, territory was often a bargaining chip in diplomatic relations, particularly before the notion of national geo-bodies stabilized. Historically also, meanings of territory have changed with de facto geopolitical and socio-cultural alignments. We are thinking here of zones I am familiar with in mainland Southeast Asia, particularly the large 'Golden Triangle' overlapping the borders of Yunnan, northern Myanmar, northwest Laos and northern Thailand. In that zone, with changes in geopolitical alignments post-Cold War, and recent geoeconomic alignments due to certain political moves by the Myanmar State, conditions have transformed from being 'shadows of sovereignty' (similar to notions of illicit and illegal internationally, but licit and legal locally) to coming 'out of the shadows' as established and legitimate networks (often involving amalgams of military elites; ethnic leaders; Chinese, Thai and Indian businesses).

Moreover, there is nothing unusual in territorialization within and across national borders. The whole history of enclosure, national parks, forest reserves, resource zones create many forms of inclusion / exclusion (Hall, Li and Hirsh). Indeed as Vandergeest and Peluso in various papers, and numerous other scholars, testify, we cannot understand the transformation and commodification of Southeast Asia without reference to such territorializations, involving so many different 'tricks' in terms of creating new spaces of accumulation, linkages to wider markets, and distanced control over environmental resources, which has by and large been pushed by State-Corporate participation. Indeed, as Nancy Peluso has said, we cannot think any more of common property in terms of 'bundles of rights' in an era when virtually all resource frontiers and all natural resources are captured, fragmented and territorialized.

Finally, there are numerous engagements that transcend boundaries yet reify the meanings and contents of territory for accumulation. We are thinking of the many ADB corridors, bridges and roads, which Glassner has examined as opening up accumulation opportunities for already existing global capitalism, rather than as being a venue for more even development and regionalization. The key players are large transnational operators, huge Asian companies engaged in things like agribusiness and food processing, capital cities (rather than provincial and local towns), and Chinese state and quasi-state concerns opening up the Mekong region for trade, investment and business.

There are numerous other 'territorial tricks' in relation to bilateral developments, such as Dawei Port complex between Thailand and Myanmar; effective opening up of Kachin State for Chinese resource appropriation and Vietnamese firms securing the upper water resources of three rivers that flow into Cambodia.

## Conclusions

We think that ‘territorial tricks’ usefully supplements, the territorial trap. The term supplement here signifies that the latter (the tricks) already lurks in the latter (territorial traps). The territorial trap is not simply an artifact of international relations writing, but a concrete abstraction that through the nexus of states/nations/borders and business impresses itself on bodies; hands, hearts and minds.

So this requires that we attend more carefully to understandings of territory – in this we join others, such as Jones and Merriman (2012, 938) who maintain ‘there is scope for considerable dialogue between networked and territorial or bounded understandings of space...’.

Notwithstanding our arguments here and subtle work elsewhere on walled states (Brown, 2010) and the security/economy nexus of borders (Coleman, 2005), there are risks of reifying the state again – the difficulty of conceptually moving beyond because our vocabulary and basic concepts of sovereignty and political orders are conditioned by experiences of statehood (Bartelson, 2001).

The recent book by Sandro Medzzadra and Brett Neilson (2003) suggesting attention to the sovereign-capital multiplication and partitioning of labour via enclaves, production zones, via what they term ‘border as method’ is instructive and may help chart critical paths. In thinking about such territorialized divisions of labour they also:

‘...approach the border not only as a research object but also as an epistemic framework. Their use of the border as method enables new perspectives on the crisis and transformations of the nation-state, as well as powerful reassessments of political concepts such as citizenship and sovereignty.’

Moreover, there are fascinating analogies and questions re firms, territory and states in the past (such as the VOC: the Netherlands East India Company) and present (government-linked companies from China or sovereign wealth funds for example in production/consumption/transit zones in Africa and elsewhere). Thinking comparatively, postcolonially (and therefore historically) leads us to re-consider the circles of circulation/accumulation where M-C-M1 intersects with territory – an artifact of sovereignty, that came to define statehood, which in turn reworks – along with other agents – territory/ power.....

In short, we want to pay more systematic attention to territorial tricks within the sovereignty/accumulation nexus: to the many sovereign sleights of hand at work.

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# **The US Developmental State and its Implications for Studies of East Asia**

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## Introduction

Chalmers Johnson's path-breaking work on the Japanese developmental state, MITI and the Japanese Miracle (1982), outlines both a positive conception of what constitutes a developmental state and—in true Weberian fashion—a negative conception, a category helping defining what the developmental state is not. That category is the liberal “regulatory state,” or “market-rational” state. The “developmental” or “plan-rational state” has Japan for its exemplar, the regulatory state has for its exemplar the United States.

In establishing this Weberian ideal-type framework, Johnson elaborates the distinctions between the types. Of the US-style regulatory state, he says, “In those states that were first to industrialize, the state itself had little to do with the new forms of economic activity but towards the end of the nineteenth century the state took on regulatory functions in the interest of maintaining competition, consumer protection, and so forth” (Johnson 1982, 19). In contrast, “In states that were late to industrialize, the state itself led the industrialization drive, that is it took on developmental functions”—this being the case for Japan (Johnson 1982, 19).

Remarkably, Johnson's construct neglects the fact that throughout the 19th century the United States was not “first to industrialize” but, like Germany and Japan, a “late-comer” attempting to catch up with England. This is a non-trivial point, since much has been written about US industrial policy in the 19th century, including its rationalization by political economists like Henry Charles Carey (the US counterpart to German political economist Friedrich List). Indeed, careful scholarship on the United States has repeatedly shown that long before the late nineteenth and early twentieth centuries the US economy was marked by substantial and highly strategic state industrial and development policy—e.g., industrial protectionism, funding of railroad development, subsidies to agricultural development through land grant universities, and so on (Kolko 1976; 2006). Moreover, the changes that followed as the United States industrialized did not result in a merely regulatory state, in part because the regulations established in various industries were generally animated by the efforts of major

industrial groups to procure forms of protection against market volatility and foreign competition (Kolko 1965; 1966; 1976; Noble 1977), these evolving in relation to ongoing state subsidies for leading industries ranging from military production to health care (Koistinen 1967, 1970; Cuff 1973; Brown 1979).

The notion that more developmental industrial policies are associated principally with late industrializers is deeply problematic in any event. Indeed, even Great Britain in the 18th and 19th centuries practiced forms of industrial policy that were crucial to its industrial “take-off,” as Immanuel Wallerstein has noted (Wallerstein 1989). Neo-Weberian scholar Ha-Joon Chang has aptly recognized this point and has revised the neo-Weberian argument, insisting that all industrializing countries benefited from industrial, developmental state policies early in their development process, and that the early industrializers are today acting as “bad Samaritans”—kicking away the ladder of industrial policy that they themselves climbed—when they insist that later industrializers need to follow liberal development policies (Chang 2003, 2008).

Chang’s argument marks an advance over Johnson’s narrower ideal typing of the United States and Japan, but it still leaves in place the notion that the ideal types might be applied not to individual states but to differing stages of development—the developmental state being required for successful early industrialization, the regulatory state becoming more appropriate to later stages of industrialization. This, too, would be misleading, in my view. Crucially, twentieth century US military industry by itself gives the lie to this perspective, given its expansion from World War I onward as a tool of industrial policy. Strangely, Johnson virtually concedes this point without following up on its implications, noting that the equivalent to the Japanese Ministry of International Trade and Industry (MITI) in the United States is “the Department of Defense, which by its very nature and functions shares MITI’s strategic, goal-oriented outlook” (Johnson 1982, 21). I would contend that Johnson here overstates the planning role of the Department of Defense and underplays the significance of a nexus of agencies and actors that include not only the Department of Defense but also the State Department, the Department of Agriculture, the US Agency for International Development (USAID) and others. But in hinting at the significance of the US “military-industrial complex” (MIC), Johnson opens a valuable potential avenue of inquiry that his work unfortunately fails to explore. This avenue of inquiry is one I will highlight here.

Specifically, in this paper, I do each of the following. First, I note deficiencies in certain neo-Weberian conceptions of developmental states and put forward a conception that I think maximizes the analytical utility of the concept. Second, I show that by the criteria I associate with the more robust conception of the developmental state, the United States itself has featured a developmental state, especially between World War I and the

the 1980s. Third, I argue that if, along with adopting this view of the US developmental state, one breaks out of the “territorial trap” of neo-Weberian state theory and examines the deep relations between the US and East Asian developmental states—and especially their military-industrial dimensions during the Cold War—then these East Asian developmental states will come into focus as specific kinds of Cold War states, linked tightly to US leaders’ geo-political economic projects in particular times and places.

This analysis, I will argue, has several important practical implications. While some East Asian authors have adopted the developmental state rubric as an argument for the relative autonomy and self-determination of Asian actors, even within contexts where imperial power is exercised, the neo-Weberian framework misplaces the argument for autonomy. Relative autonomy never need be doubted in any event, but the collaborative ventures of US and East Asian elites in forming developmental states are not the finest examples of relative autonomy and are, in fact, much better examples of the formation of a deeply enabling transnational, Pacific ruling class. Neo-Weberian constructions of East Asian developmental states have soft-pedaled these transnational class—and indeed authoritarian, militarist—dimensions of developmental states while neglecting the relatively more autonomous and liberatory struggles of the Asian actors who partially tamed and partially demilitarized Asian developmental states, such as the Korean labor movement and the Taiwanese democracy movement. As such, one implication of the analysis I offer here is the need for critical scholars to disengage from some of the conceptual traps of neo-Weberian work on developmental states—such as its idealization of “plan-rational” state agencies—and pay more heed to the literatures that emphasize the geopolitical conflict and class struggle that always marked developmental state policies.

A second implication is that if actually existing East Asian developmental states were in significant part a function of Cold War geo-political economy, then there is little point in the current historical moment of “post-developmentalism” in calling for a return to idealized state practices of high developmentalism, even within states shorn of some of their Cold War authoritarian and military trappings. If the successes of the East Asian developmental states in spurring rapid economic growth and industrial transformation depended in significant ways on that authoritarianism and militarism, then the post-Cold War objective for those who favor a more egalitarian and peaceful social order should be a different kind of state in entirety, not a modified development state.

### **Defining and Delimiting the Developmental State**

The conception of what constitutes a developmental state, and which states are exemplars of such a state in what historical period, has been routinely expanded, often in a rather haphazard fashion that begins to gut the concept of any real analytical utility (e.g., Amsden 1995; 2007; Evans forthcoming; Evans and Heller forthcoming). In some cases (e.g., Leftwich 1995; Stubbs 2009) rosters of states are produced, typically all or most of the states being in East or Southeast Asia, with inclusion on the list supposedly providing us with the



key to explaining developmental outcomes such as high growth rates. Such rosters are for the most part, however, analytically useless because they neglect the specific social dynamics that create or dismantle developmental states, settling instead for a laying out a typological category into which are shoe-horned all the states whose developmental dynamics the author has decided to recognize as worthy (see, e.g., the discussion of Leftwich in Glassman 2004, 29-30). Such lists are also very frequently honorific, doing little more than placing states with high growth rates in the category of those that had “developmental” or “industrial” policies while denying a place in that category to states that did not. In such approaches, even the minimally useful claim that developmental states are those practicing industrial policy founders: for example, Thailand, which has had little in the way of industrial policy but has had high growth rates is counted as a developmental state, while the Philippines, which has had more in the way of industrial policies but low growth rates is not (Amsden 1995; Leftwich 1995).

Given this, I take one stipulation for an analytically useful conception of the developmental state to be that it cannot be merely honorific (e.g., based on recognizing states with high growth rates) and must correctly identify specific dynamics of state practice and industrial transformation. It follows from this, too, that states identified as developmental must be held to be capable of failing in various ways, just as is the case with, e.g., neoliberal states, Keynesian national welfare states (KNWS), and so on. The purpose of an analytically useful conception of the developmental state should be to provide tools for understanding the specific dynamics of specific kinds of states, not to construct a “winners’ circle” for states whose policies or developmental indicators we wish to laud.

Johnson’s criteria for the Japanese developmental state, though not free from this last inclination, at least provided a usable starting point for a conception of the developmental state by centering the definition on industrial policy. The problem with this notion, however, is that industrial policy is—when considered properly—an incredibly broad category with a whole host of modalities, not all of which are easy to compare in their effects (e.g., subsidies to particular industrial exporters versus educational spending designed to hasten the growth of specific high tech industries). Considering this variety, most states in most periods of history have had one or another form of industrial policy, though some have practiced such policy more overtly or in more rudimentary (and thus easy to identify) fashion (e.g., tariff protection).

Fortunately, Johnson provided a somewhat more specific example of industrial policy when he focused on the role of state limits on the practices of banking and financial institutions. These were to a great extent exercised by the Bank of Japan itself, after World War II, through the ways it approved or denied financing to the leading keiretsu, each of which featured a bank at its core (Johnson 1982, 203-205). This notion was further fine-tuned by scholars like Alice Amsden and Jung-en Woo, examining the South Korean state. For Amsden and Woo, one of the key features of this developmental state

its disciplining of financial capital through nationalization of the banks and forcing of credit into selected industrial sectors at low (sometimes negative real) interest rates (Amsden 1989, 72-73, 96-97; Woo 1991, 106-115, 163-170). These early neo-Weberian accounts thus identified one part of the dynamic through which developmental states attempted to foster more rapid industrial transformation and economic growth.

The importance of state policies that attempt to force or cajole credit into particular industrial lines is fairly self-evident. The World Bank, recognizing this as one significant feature of the East Asian states it examined in its East Asian Miracle report, went so far as to call this “financial repression” (World Bank 1993). The fact that the Bank regards such policies as repressive reflects the interested perspective of the bankers and provides a clue as to why disciplining of finance can in fact be useful for growth. Contrary to the view that bankers potentially occupy a privileged position from which they can survey and act on the needs of the capitalist system as a whole, I see bankers and financial capital simply as one fraction of capital in its totality, and one that will just as readily as any other pursue its own interests at the expense of other fractions—a reality made painfully evident in the neoliberal period and especially during the 2008 US financial crisis (Duménil and Lévy 2011). What Marx said of merchant capital—namely, that it will pursue its own interests by any means available to it, including fraud, unless it is disciplined by a specific relationship to manufacturing capital (Marx 1981, 440-455)—is equally true in my view of banking and financial capital. Indeed, the strong possibility exists that any fraction of capital, if not adequately disciplined by others and by various social forces, will pursue its own well being at the expense of other fractions, something inherent in the competition-reinforced drive to generate and appropriate surplus value. There is no privileged position from which actors tied up in the cut-and-thrust of class struggle with labor and competitive struggles with each other can sit back and dispassionately weigh the needs of “capital as a whole,” and for this reason alone the kind of balance between production and consumption, and between different fractions of capital, that can result in sustained accumulation is an always tenuous accomplishment.

Disciplining of financial capital can in certain contexts be part of that tenuous accomplishment, particularly insofar as it forces investment capital into lines that might be profitable and generative in the future but that bankers focused on relatively short-term returns are hesitant to fund, a fairly standard issue surrounding funding for research and development (R & D) in new technologies and industries. But as Vivek Chibber has argued, control over banking capital or finance cannot by itself insure investment by capitalists, insofar as there really exists a capitalist economy. As Chibber puts the matter, “Capitalists have a countervailing power of their own, through their control over final investment” (Chibber 1999, 316). As such, no amount of “financial repression” or subsidy to export industries can force capitalists to participate in the game, and this in turn forces the state to carry out policy in ways that encourage capitalist participation rather than simply exercising force (Chibber 1999, 321-322).

As such, a range of other policies, including different forms of complementary state spending,

have been identified by neo-Weberians as central to industrial policy (e.g., Amsden 1989, 16-18). Since these can in fact be quite varied—and since one can question how many of these are in fact unique to or characteristic of developmental states (e.g., subsidies to industries particularly close to state leaders)—I do not attempt to summarize or analyze these here.

What I will argue on the basis of this general outline of the weakest and strongest features of the neo-Weberian literature is that the following definition constitutes the most parsimonious and useful characterization of developmental states. First, a necessary condition of a developmental state is that it disciplines financial capital, making sure that bankers and financiers cannot cream off so much of the surplus as to deprive other fractions of capital of the portion of the surplus they require in order to effectively expand production and new industrial lines. A strong account of a developmental state should not only identify this feature but also explain how it is that in specific contexts states have the capacity to impose this discipline (“financial repression”) on actors such as major bankers (e.g., Amsden 1989, 147). Second, because of the limits of state control over finance identified by Chibber, another necessary condition is that states implement policies that in one way or another encourage the funneling of the portion of the surplus denied bankers by financial discipline into the specific industries that are targeted for growth. Again, the ability of states to carry out policies that result in such funneling needs to be explained, something I note in the discussion below. The presence of both “financial repression” and other policies to funnel surplus into targeted industries constitute the necessary and sufficient conditions for a developmental state. A sound analysis of such states should identify these conditions, explain the social dynamics that led to their presence (or absence), and allow for the possibility that even where they exist the states in question might fail to spur the kinds of growth and industrial transformation that are the object of analysis.

In stipulating this use of the term “developmental state,” for my purposes here, I am confining it much more tightly than do most recent neo-Weberian accounts. In doing so, I also hope to conserve for it more analytical utility than it has in the most expansive and honorific neo-Weberian accounts. This also enables us to differentiate carefully between developmental and other kinds of states. Among other things, differences in financial policies allow us to distinguish clearly between developmental and neoliberal states, the latter being defined in part by the degree to which they have unleashed financial capital (Duménil and Lévy 2004; 2011; Harvey 2005; 2009). In addition, the criteria identified here enable us to differentiate between developmental states and other kinds of states that exercise one or another form of industrial policy, such as the KNWS (see Jessop 2002). As I’ll also suggest, below, they allow us to better specify the dynamics that lead to industrial transformation, including in cases where those dynamics are generated by networks of states, as in the case of East Asian developmental states and the US “warfare-welfare state” of the Cold War era (O’Connor 1973).

## The US Developmental State

The limits of attempts to define developmental states in relation simply to the generic phenomenon of industrial policy are evident in the way the US state is characterized not only in Johnson's original account, but in some recent attempts to interrogate the United States' version of a developmental state. One prominent example here is Fred Block's account of the US developmental state (2008). Recognizing that the US government in fact exercises industrial policy but insisting on identifying it with a different process than those which characterize the ideal-type developmental states of East Asia (especially Japan and South Korea), Block deploys the notion that the United States has a "network developmental state" (DNS), in contrast to the "bureaucratic developmental state" (DBS) characterizing Japan and South Korea. He also insists that since it is largely (and willfully) hidden from public view the DNS does not function as well as it might otherwise.

The distinction between the DNS and the DBS has also been deployed to differentiate between different East Asian developmental states, for example South Korea and Singapore, characterized as DBSs, and Taiwan, characterized as a DNS (Ó Rian 2004). I will not take the space here to systematically critique this distinction. For my purposes, two points will suffice. First, the distinction between a DNS and a DBS often seems to flag little more than a difference in the kinds of industries being most aggressively promoted by the states in question. Where heavy industries are at the center of the story, with their predictably higher levels of industrial concentration and more overt coordinating and funding roles for the state, authors see a DBS. Where light industries and informational technologies are at the center of the story, with their more decentralized production networks and university or parastatal research and development organizations, authors see a DNS. But none of this categorization helps explain why one or another kind of industrial structure is dominant, and emphasis on the different types can thus misleadingly imply that these result from voluntaristic choices by state planning agencies, including in response to neoliberal globalization.

I do not find such voluntarism persuasive, but to a great extent the issue becomes moot because of the second point—namely, that by the 1980s the US government (and others) began to liberate financial capital from the controls that had previously imposed financial discipline. As such, the US state could not by the 1980s be characterized as developmental in any sense, either a DBS or a DNS—contrary to what Block claims. As such, I want to identify the major features of the US developmental state as it developed in the 20th century prior to the emergence of neoliberalism, which effectively gutted one of the necessary conditions for a developmental state.

In the 19th century, while there were an abundance of state activities that could be taken as forms of industrial policy (some of them legacies of the system of industrial protection put in place by the Hamiltonians), banking and finance capital was at best tethered by a fairly long leash—something evident at times like those of the 1879, 1893, and 1907 financial panics—though the leash could always expand and contract in relation to specific social struggles



and regulatory battles (Kolko 1963, 139-158). The great panic of 1907 had particularly significant consequences because it took place against a backdrop of relatively recent decentralization of financial power and because it took place in a general context where the maturation of US industrial capitalism was setting regulatory battles in motion across a range of industries (Kolko 1963; 1976, 1-14). Ultimately, this panic made it evident that the personal fortunes of financiers like J. P. Morgan could no longer be relied upon to overcome crises and thus gave birth to the Federal Reserve Act of 1914, which created the US central bank, the Federal Reserve Board (Kolko 1963, 242-247; Panitch and Gindin 2012, 42-43). Further important financial regulations were put in place over the next two decades, and especially during the Great Depression of the 1930s, when the 1933 Glass-Steagall Act and a subsequent 1935 Banking Act separated commercial and investment banks (Kolko 1976, 138-142; Panitch and Gindin 2012, 57).

The net result of these kinds of changes, which had to be fought out both inside and outside of the state, was a substantive form of discipline over banking capital, albeit one that was always limited by the strength of bankers and the fact that some had themselves been among the major actors enabling banking legislation—taking on this role precisely to protect their own interests by regulating banking competitors (regulatory capture) and other such statist ventures (Kolko 1963, 217-254). As such, by the eve of the Second World War the US state had fulfilled one of the necessary conditions I have identified with a developmental state, albeit in a less than fully *derigiste* fashion (e.g., without nationalization of the banks, as would later occur in South Korea and Taiwan).

Mechanisms that help fulfill the second necessary condition, the funneling of capital into selected industries, already existed, but the Second World War was to stimulate the growth of what would be one of the most consequential such mechanisms, the military-industrial complex (MIC). The MIC has been identified as coming into existence, in an early version, through vehicles like the World War I War Industries Board, which sent businessmen to Washington as “dollar-a-day” men working for government to plan industrial output for the war effort (Koistinen 1967, 1970; Cuff 1973). But the full evolution of the MIC awaited World War II, when it exploded in prodigious fashion. During that war, the US government constructed \$17 billion worth of new defense plants, equivalent to one-third of the net real value of all manufacturing plant and equipment then in existence. The government spent billions more on R & D contracts for private industry, contributing to the accumulation of \$50 billion in war surplus property, most of which was sold after the war to its original war time lessees at less than one-fourth the original cost. Since most of the buyers were from among the 250 largest US manufacturing corporations, the process helped generate postwar oligopolies in several industries. The process also consolidated the thick nexus of organizational interconnections between business and government that enabled developmental state policies (Kolko 1976, 312-313).

After the war ended, military spending declined and the US economy cooled considerably,



leading to open speculation in the halls of power about whether or not it could survive profitably without some resumption of governmental stimulus. Even as planning for such Keynesian stimulus policies was being undertaken, the Korean War broke out and provided planners with the excuse they needed to boost the military budget and create a “permanent war economy.” Between 1950 and 1953, the military budget’s share of gross national product (GNP) increased from 5 to 13.5 percent, and by the early 1960s it had settled in at around 9 percent (Kolko 1976, 318). Such sustained military Keynesianism became a mechanism for counter-cyclical economic spending while helping to generate enormously profitable businesses, often buttressed by the standard cost-plus-fixed-fee contracts, and augmented by the various possibilities for “pyramiding” profits through cost overruns and the like (Kolko 1976, 318-319). It also helped spawn new cutting-edge industries and the technologies that drove them. As Vernon Ruttan points out in a study of major US industrial innovations, military spending has been central to virtually all of them, including in post-World War II industries such as aerospace and information technology (Ruttan 2006). Bruce Cumings’ recent study of US westward expansion makes much of this militarily underwritten technological innovation, especially in the development of states such as California and Texas (Cumings 2010; see, also, Markusen et al. 1991).

It is worth my summarizing here the precise sense in which it can be claimed that the combination of financial regulation and the MIC constituted a US developmental state. Given the power of bankers, financial regulation in the US was always limited in certain ways, but acts such as the Federal Reserve Act and the Glass-Steagall Act put in place enough regulatory process to both satisfy the desires of the biggest bankers for limitations on competition and the desires of capitalists in general for a financially stable economic order in which manufacturing and services could grow. This “corporate-liberal synthesis,” as Kees Van der Pijl calls it (1984), satisfied bankers but allowed a balanced appropriation of surplus by different fractions of capital, including especially manufacturers. In this context, the MIC provided a specific set of funding mechanisms for funneling some of this surplus into R & D for leading industries, spurring the growth of cutting-edge technologies and generating a nexus connecting industry to key agencies of the state. None of this, it should be noted, was a simple and straightforward matter of rational economic planning, as is evident from the detailed studies of scholars like Gabriel Kolko, whose work on these I have cited extensively. Rather, it evolved—often piecemeal—out of a series of struggles, including between capital and labor, between social movements and the state, between fractions of capital, and between different actors within the state. The resulting developmental state was enormously successful less because of rational planning—and it is not evident, in any event, where a specific nodal center for such planning might have been—than because of the power and wealth it could deploy in the service of an array of interconnected accumulation projects, variously serving bankers, defense contractors and other manufacturers, agricultural exporters, industrial workers in core industries, and others, though never equally.

When Block laments that this kind of system has worked less well in recent years than it might have if it were more open and publicly debated, I believe he makes a double error. First, the

US developmental state of the 1940s-70s was scarcely debated and discussed openly, in the kinds of terms Block implies would be desirable, yet it was enormously successful. Rather than an open public debate about the merits of military Keynesian stimulus programs and the “warfare-welfare state” (O’Connor 1973), debate in the United States during the 1940s-1950s was maneuvered by policy-making elites into a discussion of the need to “defend” the United States against communism, and to boost military spending to previously unheard of levels to achieve this objective. The modalities of this process and the ways it presented the needs of capital for a geographically expansive realm of operation as if they were the needs of US citizens for defense against an alleged enemy have been well documented (Williams 1959; Kolko 1968; Freeland 1970).

With the politics of anticommunism driving public debate, there was little intelligible discussion of varieties of Keynesian spending and their merits, a reality with which corporate leaders were not displeased, given their desire for a quite selective and opaque set of “government interventions” in the economy. As Noam Chomsky notes (1970/2005), citing a late 1960s New York Times article by Bernard Nossiter, Samuel Downer, the financial vice president of LTV Aerospace, explained well why the postwar world must be bolstered by military orders and why this must be sold to the public in misleading terms. Downer said of military spending,

Its selling appeal is the defense of the home. This is one of the greatest appeals the politicians have to adjusting the system. If you’re the president and you need a control factor in the economy, and you need to sell this factor, you can’t sell Harlem and Watts but you can sell self-preservation, a new environment. We are going to increase defense budgets as long as those bastards in Russia are ahead of us. The American people understand this.

The implicit racism of such a comment should not be ignored, and the fact that certain Americans no doubt would have been sold on spending for Watts and Harlem points up that we are dealing here with the basis of specific class coalitions and the interests of the groups involved, not with the needs of capital—let alone US society—as a whole. Nonetheless, the statement highlights why, for the members of the political bloc that achieved hegemony after World War II, open debate about state spending priorities was less desirable than scare tactics generating support for industrial policy by stealth.

In any event, as I indicated earlier, Block’s lament about the hidden US developmental state of the present period is errant in a second sense insofar as one of the necessary conditions for a developmental state, the disciplining of financial capital, has evaporated in the era about which he writes, the era of neoliberal globalization. Whether or not it would be useful to have a more open and democratic discussion of spending priorities—and, of course, under certain specifiable conditions that are difficult to achieve in a capitalist context, it would be—that debate today could not be about how to reform the

the US developmental state. Indeed, it would have to first suggest measures for recreating such a state by re-disciplining financial capital.

These reflections on what could be construed as the character and historical geography of the US developmental state inform my readings of various East Asian developmental states. In the next section, I will explore this issue by examining specific relationships between the US developmental state and East Asian developmental states during the high point of their development, the Cold War period between 1945 and the 1970s.

### **East Asian Developmental States in Transnational Perspective**

Neo-Weberian scholars of East Asian developmental states have been conceptually trapped in two interconnected ways. First, adopting the stringent Weberian distinction between politics and economics, they look for evidence of “plan-rational” state actors driving development policies, and often in fact conjure such actors into existence against actually existing histories that betray persistent struggle and conflict within states, both along class and class-fractional lines, typically leading to far less than planned or “rational” policies. The deep interpenetration of states and the social processes they purport to govern makes it impossible to construct realms of “insulation” from social struggle, making both neoliberal and neo-Weberian conceptions of good governance largely irrelevant.

Second, and more to the point for my argument here, neo-Weberian scholars of East Asian developmental states are trapped by the methodological nationalism that structures Weberian methodology, forcing them—among many other things—to impose “nationalism” as an explanation for the behavior of state actors, frequently without interrogating the internal divisiveness of competing nationalisms or the political motivations out of which differing nationalisms are constructed (e.g., Amsden 1989, 14, 28). Neither of these methodological weaknesses necessarily prevents these scholars from interrogating in salient ways many of the specific state maneuvers that contributed to successful industrial transformation, especially where they emphasize the disciplining of financial capital; nor are they wrong to emphasize the points at which conflict with US and other state leaders over policy orientations betrayed the relative autonomy of leaders within the East Asian developmental states. But their neglect of the elements of transnational class and geopolitical alliances that enabled certain aspects of developmental state policy leaves their accounts at best one-sided and at worst deceptive, particularly when such scholars use the analyses as a basis for advising other national leaders on ways to “escape from empire” (Amsden 2007; 1995; Leftwich 1995).

Relative to the two criteria for developmental states I have stipulated above, I put my argument here this way: while neo-Weberian analyses of East Asian developmental states—e.g., Johnson’s account of Japan (1982), Amsden’s account of South Korea (1989), and Robert Wade’s account of Taiwan (1990)—are effective in exposing some of the ways in which these states disciplined capital, and especially financial capital, they are far less effective in explaining the importance of transnational geopolitical alliances that enabled the funneling

of large amounts of capital into targeted industries. Where this last story is concerned, the US MIC played a significant role, and neo-Weberian scholars have not surprisingly steered away from this story since it suggests different implications for the developmental state story than those they favor.

In this section, I briefly interrogate this geopolitical dimension of the developmental state story and note why I think such steering clear of it badly mars neo-Weberian accounts, thus commending accounts that are not only geographically more nuanced—e.g., highlighting the internationalization of states and transnational class formation—but more attentive to the deeply conflictual nature of struggles in and around developmental states. In explaining this argument, I rely on materials from an extensive case study of the US Korean War and Vietnam War efforts and the relationships these wars forged between US actors and both states and industries in East Asia. Given the need for some brevity, I largely exclude the extensive qualitative dimensions of the geo-political economic story (e.g., the diplomatic negotiations leading to various alliances) and focus more on quantitative outcomes related to the funneling of capital through the MIC.

To be further succinct with this material, I'll briefly highlight only two major cases of internationalization of the MIC, noting the ways such transnational processes worked to buttress the formation of developmental states in Japan and South Korea, reserving some sharply compressed comparative comments about Taiwan, Thailand, and the Philippines for the end. In a nutshell, what I argue is that in the two Northeast Asian cases Asian leaders themselves took initiative in disciplining financial capital, as neo-Weberians have rightly argued; but these states also developed much of their capacity to flush large amounts of investment funding into key industries through their alliances with the US MIC. As such, military spending and production became a crucial axis for internationalization of the state and Pacific ruling class formation, providing not only one of the necessary conditions for a developmental state but some of the enabling conditions for industrial success. Northeast Asian developmental states were, therefore, in part the products of incorporation of these states into the US MIC during the Cold War period.

The post-World War II starting point for all this was of course the US occupation of Japan under the Supreme Command Allied Powers (SCAP). Under SCAP, the incorporation of the Japanese state into a US-led alliance could be undertaken by force, to some extent, at least until the occupation ended in 1952. But well before this point Japanese producers had been effectively incorporated into the MIC with their own enthusiastic participation. In the narrowest economic sense, the most important matter is that the Korean War became the crucial turning point for attempts to recuperate Japanese industries. Mired in sustained postwar difficulties, Japanese firms in 1950 experienced a sudden and ultimately sustained boom that catapulted them quickly to the top of the global economy. John Dower notes how US military offshore procurement (OSP) resulted not only in sustained economic growth but the kind of industrial stimulus that



would underpin this growth for many decades (Dower 1999, 541-542):

...the outbreak of the Korean War on June 25 [1950] ended the stabilization panic and brought in its place a war boom stimulated by U.S. 'special procurements.' The conflict that now ravaged Japan's former colony was, as Prime Minister Yoshida and a great many others liked to say, 'a gift of the gods'... Most industrial sectors were stimulated by these procurements... [bringing] an estimated \$2.3 billion into Japan between 1950 and the end of 1953, a sum that exceeded the total amount of aid received from the United States between 1945 and 1951 and was all the more valuable because payments came in the form of dollars. Even after the Korean War ended in 1953, military-related U.S. purchases continued under the rubric 'new special procurements,' bringing in an additional \$1.75 billion from 1954 through 1956, a major portion of the country's 'export' income during these years. This prolonged windfall enabled Japan to increase its imports greatly and eventually doubled its scale of production in key industries... At the time, Japan was the only industrialized country with spare engineering capacity, and orders poured in for its machine products. Because Western shipyards were fully extended, the country was presented with a golden opportunity to develop its shipbuilding industry as a leading export sector... Steel production increased some 38 percent in the first eight months of the war, while steel exports tripled. The automobile industry was revived by large U.S. purchases of trucks and other vehicles. Toyota, for example, boosted production 40 percent.

Toyota's good fortune had, of course, come at a cost, one recognized by its management: "These orders were Toyota's salvation,' the president of the company later recalled. 'I felt a mingling of joy for my company and a sense of guilt that I was rejoicing over another country's war'" (Dower 1999, 542-543). Other Japanese leaders showed equal enthusiasm, if less open guilt, the governor of the Bank of Japan, for example, referring to special procurement as "divine aid" (Schaller 1997, 49).

The ramping up of Japanese industrial production occurred remarkably quickly in this context. While Japanese business leaders were at first concerned that the procurement orders would be temporary and limited in character—the first orders were for items such as weapons, jeeps, trucks, clothing, and tents—by the end of 1950 the orders had already substantially reduced Japanese inventories and set exports on a record trajectory for the post-war era (Borden 1984, 145). The process continued throughout the Korean War, with Japan able to use its US dollar earnings to import around US\$2 billion per year, this allowing key industries to roughly double their scale of operation (Nakamura 1995, 45). Moreover, industries did not merely recover and expand their capacity, they engaged in substantial technological upgrading, with



support from US officials and a program established for the purpose (Borden 1984, 148; Schaller 1997, 49). This tremendous surge in productivity required that Japan have access to an expanding global export market, and the global boom generated by US war spending to some extent met these conditions (Borden 1984, 145; Nakamura 1995, 43). In the near term, this need, combined with US efforts to discourage Japanese trade with China, strengthened the bond between the US and Japan, making Japanese exporters especially dependent upon the US market.

Although OSP became relatively less important in quantitative terms over the 1950s and 1960s, its absolute values and qualitative significance are striking. Though he does not elaborate on its overall significance, Johnson himself notes that OSP and expenditures by US troops in Japan equaled 37 percent of Japanese foreign currency earnings in 1952-1953 and was still equal to 11 percent in 1959-1960, long after recovery had occurred (Johnson 1982, 200). Further increases in OSP occurred as a result of the Vietnam War, raising US military orders by another US\$3 billion. Dower shows that between 1950 and 1970, total OSP from Japan came to US\$10 billion, or US\$500 million per year for twenty years (Schaller 1985, 296).

As Dower also notes, the matter is not finished once one has recognized the quantitative value and direct impact of US military procurement on Japanese industrial growth. Japan obviously had—and needed, if the growth was to take the form it did—a state capable of marshaling and directing that growth, “disciplining capital” and “governing the market.” That Japan ended up with such a state is rightly seen as a Japanese accomplishment, and one that centered on actions like those of the Bank of Japan, discussed above. But the Japan-centric/nation state-centric story told by neo-Weberian scholars like Johnson pushes to the background the role of the US occupation in helping establish and maintain the Japanese developmental state. As Dower puts the matter (Dower 1999, 558),

Much of what has been characterized as a ‘Japanese model’ proves to be a hybrid Japanese-American model: forged in war, intensified through defeat and occupation, and maintained over the ensuing decades out of an abiding fear of national vulnerability and a widespread belief that Japan needed top-level planning and protection to achieve optimum economic growth. This bureaucratic capitalism is incomprehensible without understanding how victor and vanquished embraced Japan’s defeat together. To borrow one of the humorous neologisms that floated around during the immediate postwar years, the so-called Japanese model could have been more aptly described as a ‘SCAPanese model’.

Dower recognizes that some elements of this “model” were indeed formed by Japanese leaders themselves in the context of the country’s imperial warfare projects: “Emphasizing employee security (including ‘lifetime employment’) over stockholder dividends in large

companies, often singled out as a distinctive feature of the postwar Japanese system, had its real genesis in the war years. So did the government's intimate role in providing 'administrative guidance' to business and industry" (Dower 1999, 559). Japanese business leaders' preferences were also crucial to the sustaining of such "administrative guidance" during the occupation, since, "[i]n the maw of defeat, confronted by a staggering postwar crisis, it seemed logical to most Japanese to maintain these arrangements; and with the good grace of their American overlords, that is essentially what they did." Thus, "[m]uch of what later became identified as the 'Japanese model' and was shrouded in a vapor of rhetoric about Confucian values was simply a carry-over of arrangements that had been spawned by the recent war; and postwar planners maintained and adapted this inheritance not because they were secret samurai, but because they believed this was a rational way to promote maximum economic growth in an ominous world" (Dower 1999, 559-560).

But the initiatives here were not solely Japanese, since "[f]rom the moment of their arrival [in Japan], the Americans bolstered the role and prestige of the bureaucracy by their patronage. When Cold War considerations took over and the 'reverse course' in occupation policy was launched, it was the Americans who promoted the administrative 'rationalization' that resulted in an even greater concentration of bureaucratic authority." Indeed, the nodal economic planning agency most emphasized in Johnson's account of the Japanese developmental state was a SCAP—not a Japanese—product: "The creation of the powerful Ministry of International Trade and Industry three years before the occupation ended was the most visible example of this" (Dower 1999, 560). In sum, both Japan's postwar recovery and industrial transformation, along with the construction of a Japanese developmental state, were in crucial ways the products of collaboration between US and Japanese elites—undertaken, I can only note in passing, at the expense of Japanese actors such as socialists and labor leaders, whose projects were effectively repressed by the same developmental state (e.g., Schaller 1985, 44-45, 49-50; Nakamura 1995, 42-43; Tabb 1995, 79).

In South Korea, the interaction of US and Korean elites around geopolitical and military projects, along with enrolment of Korean firms in the MIC, was of equal significance. At the center of the story here are Korean construction firms like Hyundai and Daelim, along with transportation giants like Hanjin, all of whom received an enormous boost from US OSP during the Vietnam War period and then began to reap even larger OSP revenues in the late 1970s and 1980s as they followed the US military into the Middle East. The story here, which Young-Jin Choi and I have interrogated in some detail (Glassman and Choi, under review), is lengthy and fascinating, and I can only indicate some of its dimensions, which I'll do by focusing in the first instance on Hyundai.

South Korean firms moved into Vietnam in great numbers, along with Korean troops, as the result of a secretive arrangement that allowed Korean firms to bid for OSP contracts without competition from Japanese or other non-US bidders. Hyundai contracts in Vietnam covered construction ventures such as building military housing, and also activities such as the dredging of Cam Ranh Bay, from which it made the lion's share of its revenues (Lahlum

1967; Hyundai 1997, 469-472). The quantitative significance of Vietnam War contracts is noted by Amsden, though she sharply curtails her discussion of this. Amsden cites figures claiming that already during 1963-1966 military projects accounted for 26 percent of Hyundai Construction's total revenues and 77 percent of its total profits (Amsden 1989, 266). The quantitative significance of Hyundai's contracts was indeed great—in fact greater than this, as I will show below—but the qualitative significance of the contracts, I would argue, was equally significant.

Hyundai, like many other Korean firms, did much of its work under sub-contract to the major US conglomerate organizing the vast majority of US contracting work in Vietnam, the Halliburton subsidiary Raymond, Morrison-Knudsen, Brown & Root and J. A. Jones, or RMK-BRJ (Lahlum 1967; Carter 2008). US President Lyndon B. Johnson (LBJ) had risen to political power in the United States in no small part on the strength of his connections to George and Herman Brown, the founders of Brown & Root (Gardner 1995, 8-9), and as the parent conglomerate that grew from this Texas construction company, Halliburton became one of the most powerful and favored firms of the LBJ regime (Chatterjee 2009, 23-28).

By sub-contracting with RMK-BRJ, Hyundai was in its own way beginning to participate yet more fully in the US MIC and the Pacific ruling class, something it had already begun to do in more rudimentary fashion from the time of the Korean War. A Hyundai manager who worked in Vietnam has noted to me how Hyundai's Vietnam experience differed from its earlier experience building a World Bank-funded road in Thailand and how the former contributed to the company's development.<sup>1</sup> Whereas in Thailand the company had been forced to buy new construction equipment to meet quality standards, in Vietnam all the requisite equipment and construction materials were provided in abundance by the military and the parent contractor. Indeed, as the company worked to improve its ability to make precast concrete (PCa) for prefabricated building construction—a technique that was to subsequently pay great dividends in the Middle East—the US military supplied it with the necessary concrete mixing machinery.<sup>2</sup>

And whereas in Thailand the company had to experiment on its own with meeting quality standards, sometimes failing and paying the price, in Vietnam it was literally trained directly by US military engineers on how to meet construction standards. Moreover, when it built military housing in Vietnam, Hyundai engineers had to begin working with a wider variety of heavy equipment, including learning to undertake repairs and mastering the international engineering standards connected with use of such equipment. Given these advantages, opportunities, and demands not only did Hyundai engage in tremendous learning and technological upgrading in Vietnam, but unlike in Thailand it profited enormously and accumulated considerable financial capital—much of this, again, being ploughed back into projects in Korea, such as the building of an airstrip in Osan.<sup>3</sup>

Hyundai's corporate history mentions several important and specific aspects of the company's process of technological upgrading in the context of the Vietnam War, and its related activities in the same era at the US military facilities on Guam. In Vietnam, the company's main activity was dredging, and it purchased its two dredges from the Japanese firm Nomura, purchases facilitated by the OSP revenue the company was reaping. Hyundai studied and worked with these dredges to master their operation and mechanics (Hyundai 1997, 469-472), one of several technological learning endeavors that contributed to the firm's later ability to segue into activities like shipbuilding (Hyundai 1997, 507-509).

In Guam, a US military base that supported the Vietnam War effort, Hyundai engaged in a variety of projects during the period 1969-1975. One of the most significant kinds of projects undertaken on Guam was construction of military barracks and houses, which required mastery of a range of new construction processes. This included further employment of pre-fabricated housing and the PCa method, which enabled the company to complete housing projects far more quickly. The development of the ability to rapidly build prefabricated structures, along with the revenues Hyundai generated from construction contracts and sale of houses on Guam (totaling over US\$70 million in earnings), formed foundations for the construction company's quick and massively successful moves into the Middle East at the end of the Vietnam War (Hyundai 1997, 469-472).

More generally, based on its Thailand, Vietnam, and Guam ventures, Hyundai was able to expand its operations both sectorally and geographically. The several thousand engineers that were trained in this era became crucial to the company's overall development, continuing to work for the company, training the next generation of engineers as the company expanded into different fields of activity—such as heavy industries, shipbuilding, and automotive (Hyundai 1997, 384-385)—and even in some cases moving to other Korean firms and helping them develop their construction and engineering capacities.<sup>4</sup> Moreover, Hyundai's financial growth in this era funded the subsequent expansion into projects in the Middle East, where the company began to generate truly enormous revenues even in comparison to those from its Vietnam ventures (Figure 1).<sup>5</sup>

Hyundai's construction contracting history from the Vietnam era forward is worth further reflection. As Figure 2 makes clear, one of the striking features of this history is that OSP contracts were consistently available to the firm—and in increasing dollar amounts—over the entire period from 1965 to the late 1980s. As Vietnam War contracts subsided, Hyundai received new contracts for work on Guam, and as these subsided the boom in Middle East contracts (officially registered through Saudi Arabia) drove the value of procurement orders even higher; and even as the Saudi contracts diminished a number of OSP contracts for work in South Korea itself partly filled the gap. By the end of the 1980s, of course, Hyundai had become a much different company than in the early 1960s, and its dependence on OSP diminished dramatically. But this industrial maturation evolved over a 40-year period (counting Korean War era contracts) in which the firm was consistently able to take advantage of the growth and technological development opportunities provided by US military orders.



The militarization of Hyundai's development within the US MIC was reflected, too, in the company's labor practices. Notwithstanding the corporate history's insistence that it's Thailand experiences forced it to learn new ways of communicating with workers, Hyundai developed within South Korea itself a reputation for harsh treatment of its workers, including militarized factory discipline. Labor scholar George Ogle compares Hyundai to Samsung in this respect, indicating that Hyundai was in fact even more regimented and repressive (Ogle 1990, 117-125). Yet in Hyundai's case the dramatic expansion of the firm's industrial labor force, a direct consequence of its massive success, ended up creating conditions propitious for labor organizing, and the accumulated grievances of workers who were paid relatively high wages but suffered various daily humiliations eventually resulted in a massive, powerful, and successful union campaign. Indeed when general worker militance began to overtake South Korea in the late 1980s, it was Hyundai workers who were at its core, leading South Korea into an era where Fordist, hegemonic labor relations in major chaebol began for the time being to displace paternalistic and despotic labor regimes, wages began to rise more in line with productivity, and a general process of democratization was unleashed (Ogle 1990, 117-125; Koo 2001; Doucette 2013).

Hyundai is no doubt one of the premier cases of OSP-enabled transformation in South Korea, but it is scarcely unique. For example, firms such as the large but more domestically-oriented construction company, Daelim, had experiences very similar to those of Hyundai, except for the absence of OSP opportunities in Guam (where Hyundai was the sole Korean contractor). Indeed, as Figure 3 shows, Hyundai was not even the South Korean construction firm that reaped the most in OSP contracts over the 1965-1991 period. Moreover, as Figure 4 shows the value represented by these contracts was substantial; the total value of US military construction and engineering contracts received by South Korean firms—not counting here private contracts or the large number of sub-contracts with firms like RMK-BRJ—can be very conservatively estimated to have equaled as much as 25 percent of value added in the construction industry during the Vietnam War era (averaging 21 percent) and 35 percent during the Saudi period (averaging 18 percent). These figures do not include, either, revenues from the large numbers of privately contracted construction projects in places such as the Middle East that were fundamentally made possible by the geo-political economy of military procurement and the movement of Korean firms into regions where the US military was becoming increasingly active. For example, the web site for the Samwhan Corporation, which was the most prolific US military contractor, contains a list of the enormous number of private sector projects carried out by the firm (See <http://www.samwhan.co.kr/sw/english/>.) Though the list does not indicate the dollar value of contracts, the fact that it shows some 125 international projects between 1971 and 2006, most of these in the Middle East, and 514 domestic projects over roughly the same period—as compared to the 43 projects it undertook under US OSP from 1965-1975, and the 329 such projects it undertook from 1975-1991—gives a sense of the



importance of these private sector contracts that piggy-backed on US OSP.

To place the significance of the figures on Korean construction firm OSP revenue in further relief, I can note that construction output reached 9.4 percent of total South Korean GDP by 1979, and 11.3 percent by 1990, the highest share for any OECD country during the latter year (Field and Ofori 1988, 44; Park 2011, 190). In-Young Kim notes that overseas construction accounted for between 7.5 and 11.5 percent of total South Korean GDP growth during the years 1977-1981 and was the leading source of chaebol accumulation during this period (Kim 1996, 106, 119). When one adds that the construction industry is known to have historically strong connections to manufacturing growth (Bon and Pietroforte 1990), and that South Korea's construction sector has been shown to have had especially strong backward linkages to a wide range of other industries (Park 1989, 371-372; Polenske and Sivitanides 1990, 154-159), the importance of the construction contracting history that enabled much of this growth becomes clear. Indeed, it would seem to provide a key to understanding why the South Korean growth dynamic has resulted in what Bae-Gyoon Park and others call the rise of a "construction-oriented state" (Park 2011; cf., McCormack 1996, on Japan), one that has in turn helped spawn the region's most prodigious heavy industry core, outside of Japan.

### **Other Regional Allies, Other Kinds of States**

The cases of other US allies that were incorporated into the MIC during the Cold War era are each distinctive in their own ways. By the criteria I have stipulated here, not all of them can be claimed to have had developmental states. Thailand, for example, never had a state that attempted to discipline financial capital (Glassman 2004); and although the Philippine state attempted industrial policies the corrupt nexus that protected particular financial interests prevented the development of a full-fledged developmental state (Hutchcroft 1998). Taiwan is typically seen as having a developmental state qualifies by the criteria identified here, but its case is somewhat different than those of either Japan or South Korea, part of the reason that scholars like Rian have chosen to portray it as a DNS (see also Cumings 1984).

To be sure, like South Korea, the Taiwanese developmental state disciplined financial capital by nationalizing banks (Gold 1986; Wade 1990). And Taiwan was also enrolled in the US MIC, garnering OSP contracts equivalent to roughly 2-3 percent of GDP and 10-18 percent of gross fixed capital formation (GFCF) during the years 1964-1968 (Figure 5). Moreover, the incorporation of Taiwanese firms and workers into transnational geo-political economic networks allowed them to develop capacities crucial to the development of key industries such as electronics and other high technology industries, particularly through involvement in the repair and maintenance of aircraft and other such activities contracted out during the Vietnam War. Yet Taiwan was also limited in the amount of work it could do for the US military project in Vietnam for the simple reason that US officials felt giving Taiwanese actors a very significant or highly visible role (like the one being taken on by South Korean actors) would "export the Chinese civil war" to Vietnam and bog down the US war effort

there by complicating relations with the People's Republic of China. As such, even though Taiwan had a number of construction firms potentially capable of carrying out the kinds of activities undertaken by Hyundai, Daelim, and other South Korean firms, they did not receive the same kinds of opportunities. Rather, taking advantage of the opportunities they did have, various Taiwanese leaders decided to focus on developing the economic capacities for which the country would later be well known, including those that have been central to Taiwan's characterization as a DNS.

While incorporation into the US MIC did not therefore insure either the formation of a developmental state or industrial success, the degree and form of that incorporation was nonetheless significant for the particular forms that states took, the kinds of industries that benefited from Cold War era growth, and the kinds of regional linkages and industrial hierarchy that were put in place between 1945 and 1980. Figures 5 and 6, give an indication of the relative significance of Vietnam War era OSP for South Korea, Thailand, and the Philippines and also suggest how this overall process related to regional development patterns. South Korea, the premier heavy-industry state outside of Japan, was at the top of the list of beneficiaries from US offshore procurement (OSP) and Military Assistance Program (MAP) spending, with these two combined accounting for a significant share of GDP and gross fixed capital formation (GFCF) during the 1960s and early 1970s. Taiwan and Thailand, both of these highly successful economically but neither as favored by OSP and MAP in the Vietnam era, developed different kinds of states and industrial structures. Taiwan's economy had actually benefited from US MAP assistance in the Korean War period and had a more extensive industrial base than Thailand, but one that was parlayed under the circumstances of the 1960s into a high tech industry focus and a DNS. Thailand's economy was far more dominated by agro-exports and banking, and it never industrialized in the same fashion as either South Korea or Taiwan. Neither did it form a developmental state. The Philippines is in some ways the most interesting case because as of the early 1960s it had a larger manufacturing sector than either South Korea or Thailand (Figure 7). Yet for geographically and historically specific reasons that have in part to do with neo-colonial relations with the United States it did not receive nearly as much OSP or MAP as the other US allies, and its manufacturing sector was quickly surpassed in both overall output and exports by the South Korean economy during the Vietnam War era (Figures 7 and 8).

While these broader phenomena deserve far more detailed analysis than I can supply here, they indicate that incorporation into the US MIC was not a blanket process supplying equal opportunities—or amounts of capital—to all those involved. In this sense, incorporation into the US MIC during the Vietnam War era was not by itself a sufficient condition for either formation of a developmental state or rapid industrial transformation. Rather, it formed part of the terrain on which East Asian developmental states emerged. Identifying the US MIC as a major, if differential, player within East Asian developmental states nonetheless has important implications that challenge the “lessons” some neo-Weberians draw from East Asian cases.

## Conclusion

I have argued here that by a particular definition of developmental states the United States itself had such a state in the Cold War period, and that its crucial modalities were a limited but important regulation of financial capital and funding of key industrial sectors through the MIC. Against this backdrop, I have also claimed that one of the ways East Asian developmental states like Japan and South Korea met the requirement to not only discipline financial capital but to force funding into key industrial lines was through their own participation in the US MIC.

If this analysis is correct, then it suggests why attempts to rekindle developmental states in the neoliberal era, with or without their original authoritarianism and militarism, are likely to fail. The conditions for the growth of East Asian developmental states, as well as for some of their successes included both their ability and willingness to discipline financial capital and their ability and willingness to participate in the US-led geopolitical alliance that gained them places in the MIC. Both of these conditions have effectively lapsed with the evolution of neoliberal globalization. Financial capital is now seen—rightly or wrongly—as much more difficult to discipline; and the US MIC is not only no longer of as much economic significance in East Asia but has clearly in some ways prioritized its ventures in the Middle East.

In this context, trying to reconstruct developmental states seems to me beside the point. Developmental states—in both the United States and East Asia—were in many ways geographically-historically specific, and interconnected. Not only could they not easily be recreated, but it would be difficult to explain why critical scholars should wish to see their recreation, once the geographical-historical specificity is identified. Developmental states were fundamentally Cold War states, whose authoritarianism—or at least lack of full-fledged democracy—and militarism were integral to their functioning. Popular movements in the United States in the 1960s, and in South Korea and Taiwan in the 1980s, challenged and helped put an end to some of the worst features of these states—though in the case of the United States a re-emergent militarism has again won the day, and such also threatens South Korea at present. In obscuring the military authoritarianism of actually existing developmental states, neo-Weberians misleadingly (and wistfully) imply that perhaps we could recreate the developmental state’s “rational planning” without all of its other ugly features. A more worthy goal, it seems to me, would be to draw inspiration from the various social movements that have challenged developmental states and regard them, rather than authoritarian or “plan-rational” states, as foundations for overcoming both developmental states and neoliberal states—or, in other words, capitalism.

## Notes

1. Author interviews with Yong-Ky Eum, former CEO of Hyundai Lumber Industry (1991-1998), former CEO of Hyundai Corporation (1989-1991), former CEO of Hyundai Mipo Dockyard Co. (1988-89), former Vice President of Hyundai Heavy Industries (1983-1988), former accountant for Hyundai Construction (1966-), June 2010 and June 2011.
2. Author interview with Mr. Ki-Tae Kwan, Special Senior Advisor, Hyundai Engineering and Construction, June 2012.
3. Author interview with Mr. Ki-Tae Kwan, Special Senior Advisor, Hyundai Engineering and Construction, June 2012.
4. Author interviews with Yong-Ky Eum, June 2010 and June 2011.
5. Author interview with General Chang Woo-Joo, current Chairman of Korean American Business Institute, former Head of the delegation of UNC Military armistice commission (1963), Assistant Deputy Minister of South Korean Department of Defense (1965), former CEO of Hyundai Construction and Hyundai Corporation (1975-1985), June 2011.

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# **The Vietnam War and Developmental States in East Asia**

*Tae-Gyun Park, Khue Do*



# The Vietnam War and Developmental States in East Asia

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## Introduction

South Korea, Thailand and the Philippines have always been considered best examples of developmental states in East and Southeast Asia. Studies on the rapid economic development in these three countries, thus, are varied and profound. However, most of studies on the phenomenon only focus on economic factors and economic successes of these East Asian hard states in the 1980s.

This study traces back the previous historical period of late 1960s-early 1970s to find out the root for the ever-strong consolidation of state-led macroeconomic planning in three Asian countries. It tries to find the connection between the Vietnam War and the strengthening of the state's control happened in South Korea, Thailand and the Philippines, which contributes to their subsequent economic successes.

There have been many studies on the impact of Vietnam War world-wide, especially its impacts on the U.S. and Europe. However, studies on Vietnam War's impact in Asia are handful. Particularly, researching about the War influences on foreign relations and domestic affairs of Asian countries that sent troops to Vietnam upon U.S. request is nearly a void space. Few studies on Vietnam War's impact in Asia through special war procurement are limited in the socio-economic situation in Japan and South Korea.

This study expands its focus to South Korea, Thailand and the Philippines cases, three U.S. Asian allies sending troops to Vietnam. It also expands the scope of researching fields, from economic to political spheres. Vietnam War's impacts on three Asian countries are analyzed separately in a multi-faced framework. After all, this study wishes to accentuate the national-international linkage in understanding East Asian capitalist development, which is not carefully taken into account by previous studies.

## Rethinking the Developmental State Thesis

Explaining for the thrive of state-led development in a certain country, developmental state scholars usually look into the domestic situation, emphasizing internal conditions. As T. J. Pempel describes the process: “By and large, despite an agenda that concentrates on international catch-up, the developmental state is assessed largely in terms of its domestic context. When developmental statisticians examine the hurdles that state bureaucrats must clear in carrying out their particular agendas, they mainly focus on domestic problems such as business organization; allocation of scarce capital, energy resources, and technology; infrastructure development; tax credits; budgetary incentive; mass education; labor regulations; foreign direct investment; and the like.”<sup>1</sup>

This remark is particularly true for the case of South Korea, Thailand and the Philippines. There have been many studies on the origins of developmental state in three countries. Many reasons have been suggested and analyzed: Policy learning and transfer (Kwon, 2008); developmental structure: intra-elite and elite-mass interactions (Tuong Vu, 2007), bureaucratic agency-private sector collaboration (Doner, Ritchie and Slater, 2005); strong pro-growth policies (Minns, 2001); international aid (Fritz & Menocal, 2006); colonial legacies (Kim, 2009); et cetera. These studies touch upon almost all fields and aspects of the phenomenon. However, according to this study’s observation, most of them exclude a very important event in the world’s modern history, especially Asian modern history, the Vietnam War, and these three countries’ involvement in this war. Some researchers mention the Vietnam War impact yet simply consider the War as “another chance”<sup>2</sup> for economic growth and industrialization. Another shortcoming of these studies is the role of U.S. policy or policy change towards Asian region during the Cold War period. To this study’s viewpoint, the Vietnam War and U.S. policy through the Nixon Doctrine played a key role for economic successes and the strengthening of the state’s control in South Korea, Thailand and the Philippines, three U.S. Asian allies that sent troops to Vietnam.

It is a long-lived mode and style in the academia that domestic developments should be and could only be well explained by internal factors. Nevertheless, clinging to interior elements is not adequate, since international arena and domestic conditions are always interacted and intertwined. Any country aspiring to development needs to choose its strategy within the broader context of regional and international power balances. Economic options will be highly contingent on the broader external arena within which any industrializing nation’s leader must operate. Ultimately, low sensitivity to international factors is synonymous with knowing one side of the problem. Overlooking the complex interactions between internal and external factors in understanding East Asian capitalist development may produce errors and subjective conclusions. There should be more studies which pay due attention to external factors and stress the “national-international linkage” of Asian development in order to overcome this shortcoming of developmental state thesis.

## **The Vietnam War and Economic-Political Changes in East Asia**

Since 1964, with the U.S. call upon allies for “more flags in Vietnam,” South Korean, Thai and Filipino combat troops began to be dispatched to South Vietnam to assist the Americans and Saigon government. Participating in the War was synonymous with three countries’ implications in U.S. military operations in Southeast Asian region. Economic and political changes have appeared in these three countries in the late 1960s, early 1970s. The first regional political change took place in Thailand with a military coup occurred in 1971, and declaration of martial law in the Philippines and South Korea in 1972. There was little change in the political environment of countries who did not send troops to Vietnam, such as Taiwan, Japan or Indonesia.

### *The Economic Boom in East Asia*

Unlike the Korean War, the United Nations troop was not mobilized in the Vietnam War. Part of allied nations fought in Vietnam upon the request of U.S. government, thus, the U.S. was responsible for all financial need of them. The U.S. not only paid for the cost of American troops but also Korean, Thai and Filipino ones. With the Brown Memorandum in 1966, the U.S. even promised special assistance for South Korea. At the time, the estimated budget of the Vietnam War reached USD 140 billion, three times more than the Korean War (USD 54 billion) and four times exceeded the Second World War (USD 29.1). Here the transition to export-led economy in East Asia successfully brought about by the Vietnam War is clearly pointed out.<sup>3</sup>

During the War, South Korean combat troops worked the most actively. In order to reduce aid for Korea, the U.S. promoted the normalization of relations between Japan and South Korea. The U.S. also aimed at cutting down expenses in Korean peninsula by reducing USFK. However, since South Korea has sent troops to Vietnam, the U.S. had to provide special aid for the country.

In the case of South Korea, in addition to around USD 8 million worth of grants and cheap loans from Japan, the Koreans squeezed a large amount of cash and aid out of Washington, estimated at USD 7.5 million per Korean infantry division sent to Vietnam. The operative document was the so-called Brown Memorandum of March 4, 1966, under which about USD 1 billion in American payments went to Korea in the period of 1965-1970.

Thus, South Korea from 1965 to 1972 through the Vietnam War officially earned USD 1.036 billion. This includes trade income of about USD 238 million, foreign exchange earnings (construction, soldiers transfer, workers remittances, compensation for casualties, services, insurance payments) of USD 753 million.

**Table 1: War Special Procurements and Foreign Exchange Earnings**

		Total		1965	1966	1967	1968	1969	1970	1971	1972
		Amount (USD)	%								
Total		1,036.0	100.0	19.5	62.2	146.8	168.7	205.5	207.8	139.0	83.2
Trade	Total	283.1	27.3	17.7	23.8	23.2	38.0	47.1	70.1	35.7	27.5
	Commercial export	94.3	9.1	14.8	13.9	7.3	5.6	12.9	12.8	14.5	12.5
	Military supplements	188.8	18.2	2.8	9.9	15.9	32.4	34.2	57.3	21.2	15.0
Non-Trade	Total	752.9	72.7	1.8	38.4	123.6	130.7	158.4	137.9	103.3	55.7
	Construction	61.7	5.9	0.0	3.3	14.2	14.2	11.5	10.7	8.5	3.1
	Soldier transfer	201.5	19.4	1.8	15.5	31.4	31.4	33.9	30.6	32.3	26.8
	Workers remittances	166.2	16.0		9.1	34.3	33.6	43.1	26.9	15.3	3.9
	Compensation	65.3	6.3		1.1	4.6	4.6	10.8	15.2	13.9	12.0
	Service	238.8	23.1		8.3	35.5	35.5	55.3	52.4	32.0	9.2
	Cash	19.4	1.9		1.1	4.6	4.6	3.8	2.1	1.3	0.7

p. 212.

Moreover, the performance of private companies thanks to the Vietnam War also considerably enhanced. Hyundai, South Korean leading construction company at the time, from construction projects in Vietnam such as Cam Ranh, Thu Duc, has earned about USD 20 million from 1966 to 1972.<sup>3</sup> Based on the experience in Vietnam, Hyundai was able to participate in the construction process of Kyoungbu Highway in South Korea.

This Vietnam War's special procurement since the mid-1960s became an important basis for the development of Korean economy. Since 1962, South Korean government had raised a large-scale economic development plan in the field of infrastructure, steel, machinery manufacturing, yet was denied by the U.S. The Korean government in the mid-1960s was able to announce the back-up plan, that in difficult situation of large-scale investment for basic industries, the money earned from Vietnam battlefield became a vital ground for such a plan to be revived.

Furthermore, the Vietnam War provided South Koreans other two opportunities. One was the development of the defense industry. The U.S. transferred part of its weapon technology to South Korea. Via this technology transference, South Korea was able to produce weapons under the tag of arm modernization. A clear example of weapon technology was the production of M16 mortar replacing M1 which has been used until the 1950s.<sup>4</sup>

The other was construction exportation. In the 1960s, apartment collapse incidents and highway poor construction revealed the fact that South Korean construction did not reached standards to be exported. However, through the Vietnam War and two world oil shocks, South Korean construction enterprises were able to accumulate experience and

reached standards to be exported. However, through the Vietnam War and two world oil shocks, South Korean construction enterprises were able to accumulate experience and grasp the opportunity to export to the Middle East.

The other two Asian countries sending troops to Vietnam, the Philippines (annual GDP growth rate of 5.1% during 1965-1970 period) and Thailand (annual GDP growth rate of 9.4% during 1965-1970 period)<sup>5</sup> also expected special impacts of the War. The U.S. after the Vietnam War installed in the Philippines Clark Air Base and Subic Bay Naval Base. The Philippines even overhauled the law to expand U.S. investment in the country. Through this, the Philippines took advantages of not only war procurements but also developmental assistance from the International Monetary Fund and World Bank. In this circumstance, President Marcos was able to exercise his power quite stably and gradually control local powers' wealth.<sup>6</sup>

Thailand throughout the 1960s maintained an annual GDP growth rate of 10%, the highest rate among developing countries. From 1965 to 1969, Thailand's real growth rate even amounted to 12%. By the end of 1970, Thailand received from the U.S. approximately USD 500 million grant with military aid amounted to USD 800 million. Vietnam War expenses made up 4.2% of total GNP of Thailand in 1968.<sup>7</sup>

**Table 2: Major U.S. Government Expenditures in Thailand, 1965-1972\***

	1965	1966	1967	1968	1969	1970	1971	1972
<b>War expenditures</b>	922.1	2,584.1	4,109.2	4,917.8	4,629.7	4,192.1	3,788.5	4,000.0
<b>Military assistance</b>	731.0	1,013.0	1,355.0	1,500.0	1,392.0	1,273.0	1,150.0	n.a.
<b>Economic assistance</b>	357.4	438.8	799.6	1,172.4	864.3	613.0	519.0	470.0

\* In millions of baht; USD 1 = 20.8 baht.

Source: Goerge J. Viksnins, "United States Military Spending and the Economy of Thailand, 1967-1972," Asian Survey, Vol. 13, No. 5, 1973, p. 442

Japan and Taiwan, though did not send troops to Vietnam, enjoyed the benefits of the War. The economic development in Japan and Taiwan brought about synergy effect for South Korea, the Philippines and Thailand, countries sending troops to Vietnam. Thus, it can be stated that the same as Korean War, the Vietnam War contributed to special economic growth for East Asian nations.<sup>4</sup>

*Security and Political Changes in Countries Participating in the Vietnam War*

**Security crisis on Korean peninsula and strengthened social control**



Security risks on the Korean peninsula have risen during the Vietnam War. The conflict between the South and the North was particularly escalated in 1967. In 1966, the number of North-South conflicts was merely 37 yet amounted to 423 in 1967, which means one conflict per day. The number of casualties also rose: North Korea's casualties arose from 43 to 224, whereas UN casualties came up from 35 to 122 people.<sup>5</sup>

This results in the high security risk on the Peninsula in 1968 and 1969. The security crisis of 1968 started on January 21, when a group of well-trained and heavily armed DPRK infiltrators attacked the presidential Blue House in Seoul in an attempt to assassinate the South Korean president Park. Two days after the incident, the DPRK seized an American reconnaissance vessel, the USS Pueblo, with 83 American sailors on board, which accelerated the crisis on the international stage. In the following year, an American spy plane was shot down by the North, causing the EC 121 Reconnaissance Plane incident.

The security crisis on the Korean peninsula has two important reasons. The first is that North Korea reinforced its fighting tactics to be more aggressive. In the 1966 Party Congress, North Korea decided to strengthen the offensive power as an act to assist North Vietnam in the War against the America. If big conflict happened between the two-Koreas, South Korea was unable to send troops to Vietnam. And in the case South Korea wished to send more troops, negative public opinion would elevate.

The second is Park Chung-hee government's active response to developments on the peninsula regarding the North. Park government sent troops to Vietnam and in return, received huge aid from the U.S. However, this aid did not increase after 1966. In order to receive more aid from the U.S., Park government conducted active responses to the North's offensive acts. It was this kind of active response that created heightened conflict which threatened peninsula's security.<sup>6</sup>

Paradoxically, the security crisis on Korean peninsula created the condition for Park Chung-hee to strengthen domestic social control. Conscription and identity registration were established in 1967, the year of parliamentary and presidential election. When the security crisis arose in 1968, the social security system was complete, the reserve system was also established. Residents were responsible for the security of their own local regions. The reserve system created a ruling regime through military organizations. National education policy was modified and militarized education was strengthened. Every school implemented military training. Korean society became barracks national-wide.

The external security crisis and internal strengthening of social control brought about relative stability for Park Chung-hee government. In addition, by sending troops to Vietnam, Park government received U.S. back not only in terms of economics but also politics. South Korea in 1966 established the Asian and Pacific Council (ASPAC). When the summit meeting was first planned, there were not many countries participated in it.

However, after South Korea sent its troops to Vietnam, many countries were encouraged by the U.S. to participate in the meeting.<sup>7</sup>

Besides his visit to the U.S. in 1965, Park Chung-hee received another gift from the U.S. government, that was a visit to South Korea shortly after the 1966 Manila Summit Conference of the U.S. and its seven Vietnam allies. President Park and President Johnson also consulted to establish and develop Korean Institute of Science and Technology (KIST) under the support of the U.S.

In short, the Vietnam War was an important factor for South Korean government to gain domestic public support and aid from the U.S. In other words, from the mid to the late 1960s, the economic growth through Vietnam War strengthened public support for the Park government. In comparison with 1963 presidential election, Park Chung-hee had an overwhelming victory in the 1967 election and by this opportunity, successfully amending South Korean law to allow the incumbent president – himself – to run for three consecutive terms.

The relative political stability through economic growth in Thailand and the Philippines  
The Philippines is one of the few Asian countries in Asia that established democratic system very early. In this situation Senator Ferdinand Marcos was elected president in 1965. Other than the previous presidents who cooperated with Japan during the Japanese occupation of 1940-1945, Marcos had experience in guerrilla activities against the Japanese during World War Two, thus, his popularity was considerable among the Filipinos.

Macros faced initial problems in establishing governmental reform and economic development. He immediately advocated the construction of a 1 million kW electricity power plant, 30,000 feet and a 16,000 km pipeline and implemented policies to improve nationwide infrastructure. He emphasized the importance of national defense facilities, judiciary bodies and the war against non-government parties and crime, smuggling and corruption within the government. In order to implement Marcos' policy of "develop through reform," the Philippine government needed the expansion of revenue.

To achieve this goal, Marcos initially mobilized the military personnel, expanding bureaucratic system, appointing technocratic bureaucrats to important positions in the government. Marcos through the reinforcement of bureaucratic system and local association base succeed in weakening local power and strengthening central authority.<sup>8</sup> However, one thing that could not overcome was the capital. At the moment, Marcos chose to send troops to Vietnam. When the previous Philippine president, Macapagal, suggested in 1964-1965 to send troops, it had been Marcos who led the opposition against the plan on both legal and moral grounds. Thus, Marcos' unexpected decision after only one year was surrounded by controversy in the society.

Eventually the participation of the Philippines in the Vietnam War was decided in the

mid-1960s. Despite opposition against the new plan, the Marcos government gained Congressional approval and Philippine troops were sent from the middle of 1966 as the Philippines Civic Action Group (PHILCAG). PHILCAG reached a strength of some 1,600 troops in 1968 and between 1966 and 1970 over 10,000 Filipino soldiers served in South Vietnam, mainly being involved in civilian infrastructure projects. By sending troops, the Marcos government was able to receive financial support from the U.S.

In October 1966, under the active support of the U.S. during the Manila summit conference, Marcos was able to be reappointed in the 1969 presidential election. In the 1969 election, 12 candidates were on the run. Despite a wide range of negative reports on its legality, U.S. economic and political support through the Vietnam War was the key factor for the winning of Marcos. There was broad social resistance caused by the injustice of the election. However, since Marcos has successfully grasped the chance of sending troops to Vietnam, it became the foundation for the re-lay of the regime. The instability for Filipino political elites lasting from 1953 until the moment has been overshadowed by Marcos' decision to send troops to Vietnam.<sup>9</sup>

Thailand by the Vietnam War also experienced a relatively stable period. After the 1958 coup, the military government of Sarit Thanarat was maintained. However, Sarit directly appointed civilian experts to key positions in the government and promoted economic development under the module of "the state-religion-the king." In a stable economic situation, after Sarit's death in 1963, the Defense Minister and Commander-in-Chief of the Army Thanom Kittikachorn took control of the regime. Since 1964, Thanom continued the pro-American and anti-Communist politics of his predecessor, which helped to ensure massive U.S. economic and financial aid during the Vietnam War. He established and led the Saha Prachathai Party in October 1968, reappointed himself Prime Minister in February 1969 after general elections were completed.

Thanom consolidated his power base as the second military leader behind Sarit and since 1958, the military government has continued for more than 10 years in Thailand. Although he was personally popular, his regime was known for massive corruption. Meanwhile, the most important figure in Ministry of Foreign Affairs was Foreign Minister Thanat Khoman. Large-scale aid from the U.S. for economic growth backed the popular support for Thai government in 1969 and created the foundation for its come-back. As mentioned above, from 1965 to 1969, the annual real growth rate of Thailand reached 12%, which was the key base for Thanom's stable ruling.

Thailand and the Philippines since the mid-1960s found a stability in economic and political spheres thanks to their fighting troops in Vietnam. However, the inner "stable" character is different. In the Philippines case, the power of both central and local ruling was strong under the control of Marcos. By sending troops to Vietnam, central power was strengthened. This was similar to the case of South Korea. The Park Chung-hee government took advantage of the security crisis caused by the decision of sending

troops to Vietnam to enhance social control. Conversely, Thailand after the 1958 military coup maintained a stable political and social condition under Sarit, and when Thanom took power, the continued stability was based on Thai cooperation with the U.S. Eventually, the Vietnam War and the troops deployment in Vietnam has given South Korea, Thailand and the Philippines a political and social stability.

## **The Nixon Doctrine and Unexpected Political Changes in East Asia**

### *The Nixon Doctrine and Changes in U.S. Policy Toward Asia*

The U.S. involvement in the Vietnam War worsened economic and financial situation of the super power. Unlike the Korean War, the U.S. had to cover all of the war expenses. In the Korean War, war expenses have partly covered by various civil society organizations, religious organizations and governments of UN members.

However, the case of the Vietnam War was different. Due to criticized legitimacy of U.S. involvement in it, not only the participation but also assistance and support were reluctant among U.S. allies. Countries sending troops to Vietnam had to rely on U.S. aid. With the exception of Australia and New Zealand, other belligerents of South Korea, Thailand and the Philippines did not have the level of economic power to afford the cost of sending troops. In the case of Australia and New Zealand, all the salaries of soldiers who fought in Vietnam were extracted from U.S. military expenses.

As a result, the U.S. government's financial situation has deteriorated. Due to excessive military spending, the state was soon bankrupted. Eventually, the U.S. in August 15, 1971 had to stop the gold-dollar exchange system. The Bretton Woods system lasting since 1944 collapsed. U.S. dollar, the standard currency of the world, was collapsed and the Japanese Yen and German Mark became the base currencies. The declaration of stopping the gold-dollar exchange system meant that the overwhelming economic dominance of the U.S. in the world has been weakened.

Eventually, in order to prevent the deterioration of the financial situation Nixon administration decided to reduce U.S. outside intervention. To this end, President Nixon in 1969 in Guam announced the Nixon Doctrine. The principle of U.S. withdrawal from Vietnam under the motto of "Asianized the Asian problems" was announced. In the other words, Asian problems must be addressed by Asians, and the problem of Vietnam must be solved by Vietnamese people. In Vietnam, as the first step for U.S. forces withdrawal, the Nixon administration sped up the process of Paris Peace Conference in 1972. In the same year, Nixon visited China and opened the era of détente.

One year before being elected, in an article published in Foreign Affairs named "Asia After Vietnam," Mr. Nixon himself envisaged a new U.S. policy, growing out the Vietnam experience. In this article, Nixon argued that Anti-Communism efforts should be launched

by each country and one should refrain from intervening unconditionally to threatened spots of Communism. With the exception of those who failed to protect themselves, the U.S. would refrain from intervention in all Asian countries. In two concluding sections he observed that Western-style parliamentary democracies “may not be best for other nations which have far different traditions and are still in an earlier stage of development.”<sup>10</sup> Hence, the U.S. had made it clear that it should not intervene everywhere world-wide in the future.

Dr. Kissinger sent President Nixon in 29 September 1969 a report on two blank points of the Doctrine. According to Kissinger, it appeared that some countries, due to the Nixon Doctrine, were concerned of “U.S. withdrawal, reduction of military contribution and the retreat of U.S. forces.” In this international atmosphere, Kissinger was afraid that the image of the United States would be defined as a “Reluctant Giant.”<sup>11</sup> Nevertheless, Kissinger did not oppose the doctrine. In reality, if the U.S. could not overcome the power of the U.S. based on ideology then U.S. diplomacy might be powerless. Nixon’s thoughts on the Cold War history were unchanged since the 1950s, which were pointed out to be irrelevant for the 1970s situation. Here it is clear that the Nixon Doctrine did not originate from ideology, instead, it simply is a reduction of foreign intervention based on realist contemplation.

The Doctrine did not intend to bring about two different phenomena. One was the belief among East Asian leaders of eroded U.S. security commitment to East Asia. Its claim of Asianized the Asian problems and Vietnam problem under the hands of the Vietnamese led to the reduction of U.S. forces from Vietnam, and intensified U.S. efforts to promote relations with China, which resulted in strained relations with Taiwan. Through the Vietnam War, leaders from South Korea, Thailand and the Philippines have enjoyed the stability and security (entrapment), now experienced more or less a abandoned threat through the Nixon Doctrine (abandonment).

Out of U.S. intention, another important point is that political leaders of these countries were given a certain degree of “autonomy.” Weakened American intervention made these leaders free from pressure of the U.S. to strengthen the state power and provided a “breathing space” for them. By this phenomenon, countries involved in the Vietnam War were able to promote new policies. Although the U.S. policy at the moment did not approve what is called “military-based authoritarian rule,” it did create the situation in which the U.S. could not be involved in such kind of extreme authoritarianism.

Obviously, the Nixon Doctrine did not imply a U.S. total abandonment of Asia. Though promoted “Asianized the Asian problems” principle, after its announcement, the U.S. did not fully withdraw from Asia, with U.S. troops stationing in Japan, South Korea and the Philippines. Until 1976, Thai government formally requested the withdrawal of U.S. military bases in Thailand. Nevertheless, the feeling of abandonment among Asian countries urged them to seek their own route of authoritarianism, and the U.S. also did



not have the power to intervene actively in domestic situation in each country.

### **Unexpected Political Changes**

Those countries who involved in the Vietnam War could not help but felt some kind of threat upon U.S. policy changes. The number of U.S. servicemen in Vietnam peaked at 543,400 in April, 1969 and rapidly declined to 184,000 by December, 1971. The cost of fighting the war in Vietnam also fell from USD 28.8 billion annually in fiscal year 1969 to an estimated USD 15.3 billion in fiscal year 1971.<sup>12</sup> By mid-1971, approximately 16,000 U.S. servicemen (mostly airmen) had been withdrawn from Thailand, leaving about 30,000 American military personnel still in the country. American servicemen in the Philippines also declined, dropping by about 6,500 men through mid-1971 to approximately 18,500.<sup>13</sup> By mid-1971, approximately 16,000 U.S. servicemen (mostly airmen) had been withdrawn from Thailand, leaving about 30,000 American military personnel still in the country. American servicemen in the Philippines also declined, dropping by about 6,500 men through mid-1971 to approximately 18,500.<sup>14</sup>

The Doctrine was implemented by the withdrawal of one U.S. division. Nixon administration's original plan was to withdraw the whole 60,000 to 70,000 men of U.S. 7th Infantry Division. However, the withdrawal of U.S. troops was not a simple matter. President Park's backlash was huge and so did U.S. Department of Defense's. To overall assess the situation, South Korea was superior to the North with the exception of air forces, yet the U.S. side disagreed with this assessment. In addition, in the case Okinawa was returned to Japan, the withdrawal of USFK would break the balance of power in the whole Northeast Asian region.

Therefore, the Nixon administration decided to withdraw only one division, which means just 20,000 in the total of 60,000-70,000 men, yet this had a negative impact on U.S.-ROK relations. Park government at the moment thought that U.S. troops would not retreat in the situation that South Korean troops have sent to Vietnam. In fact, Park Chung-hee had emphasized that the decision to send South Korean troops to Vietnam was inevitable in order to prevent a reduction or mobilization of U.S. troops to Vietnam, yet eventually, the basis for this claim has caved in.<sup>15</sup> As a result, the honeymoon in U.S.-ROK relationship has ended. South Korean government despite pre-consultation with U.S. government in 1971 declared a State of Emergency, explaining the background of such emergency declaration was the changes in external circumstances, North Korea's increased provocation as well as changes in U.S. policy. 1971 was also the time when North-South Korean relations stepped in an easing tense and the first Red Cross talk between the two Koreas was started.

The weakening of U.S. intervention has an unintended consequence, that is the governments in countries sending troops to Vietnam were granted a certain degree of "autonomy." The Nixon Doctrine's motto of "Asianized the Asian problem" meant that, for the issues of Asians, the Americans would not intervene aggressively. The U.S. did not have due economic and financial capacity to involve actively in Asia. When South Korean government through

the U.S. Embassy in Seoul declared the State of Emergency, the U.S., despite pre-consultation, was not able to intervene actively or put pressure on Korean government. Thus, Park Chung-hee extended his power in 1972, proclaiming the restoration system, creating a permanent presidency, seriously violated people's freedom and rights.

There is a possibility that South Korean government had known in advance the U.S. would not intervene. They had experience in 1971 and also, after the Restoration, the analysis of Korean Ministry of Foreign Affairs on U.S. policy reaction suggested two below points:

1. It appears that the U.S. to move away from moral ideas in line with the national interest of the U.S. and in line corresponding to the ability of the U.S.
2. The U.S. government recently criticized the democratism in the Philippines and South Korea. Also, the problem of power centralization of Park Chung-hee and Marcos should be determined by those countries themselves.<sup>16</sup>

In fact, the U.S. could not deeply intervene in the political situation in South Korea. The U.S. Embassy and Nixon administration had a negative position on the 1972 Yushin reform and 1971 State of Emergency declaration yet conducted the "wait and see" policy. Ambassador Habib proposed three U.S. policy options including to exercise stronger pressure but eventually decided that the U.S. could not do anything. At the end of his report, he concluded that the U.S. had to continue the under-involvement policy: "Implicit in this course [of disassociate ourselves from Park's new system] is our recognition that we can no longer try to determine the course of South Korea's internal political development. It would also involve an acceleration of our disengagement from South Korea."<sup>17</sup>

Some say that the nature of above developments is the U.S. policy towards South Korea itself at the moment. And that the U.S. stood idly in front of the disappearance of democratic seeds in South Korea, a closed ally of the U.S. This was not the United States who had planned Operation Ever-ready in 1953, or the United States that put strong pressure on the transference of Park Chung-hee civil regime in 1963. This was a paralyzed USA after the Vietnam War, who since the War started to walk down-hill. Obviously, Park Chung-hee was no longer a weak political leader as he was before as well.

Thailand was also shocked by the Nixon Doctrine. Thailand not only donated military base for the U.S. Army but also sent troops to Vietnam, thus received huge political as well as economic assistance from the U.S. Geographically, Thai neighbored Vietnam, Cambodia and Laos, which made it directly face a security crisis upon U.S. policy change. In September 1969, the U.S. Senate passed a resolution which, in effect, superseded the

1962 Rusk-Thanat Communique and insisted that no American ground forces would be employed in the event of war in Thailand, which was even a bigger shock for the country.<sup>18</sup>

Thai Foreign Minister Thanat Khoman has made a conclusion that, due to Nixon Doctrine, Thailand could no longer rely on the U.S. and began to pursue his own route. Thanat in 1971 tried to improve the relationships with North Vietnam and China, and showed its favor of China has a member in the United Nations. However, this conflicted with the authoritarian route of Thanom. Eventually leading figures in the military, including Thanom, his son and his son's father-in-law staged a coup against his own government in 1971. Nixon administration silently observed the coup to fortify the Thai security dependence on the U.S. Thanom after the withdrawal of U.S. force from Vietnam wanted to maintain U.S. military in Thailand to rival the enemy. As a result, in 1972 the number of U.S. troops in Thailand increased from 31,685 to 45,000.<sup>19</sup>

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When Marcos declared martial law, he took advantage of Filipino constitution's content, that people should protect security and constitutional order in cases of "violent overthrow, insurrection, and rebellion,"<sup>22</sup> When Marcos declared martial law, he took advantage of Filipino constitution's content, that people should protect security and constitutional order in cases of "violent overthrow, insurrection, and rebellion,"<sup>23</sup>

With these series of changes in the background of the situation, Marcos wished to extend his power. Yet on the other hand, it was also because of the Nixon Doctrine's impact. Shortly after the announcement of Nixon Doctrine, Marcos began to withdraw Filipino troops from Vietnam in November 1969. He also wanted to re-establish the relations with the U.S. in correspondent with changes in Asia and the world, at the same time emphasizing the necessity of "self-reliance." Prior to his martial law declaration, Marcos argued the need to restructure U.S. military bases in the Philippines.<sup>24</sup> These moves by Marcos definitely did not mean to expel the U.S. but to extract more aid from the U.S. Moreover, Marcos not merely looked to the U.S. The Philippines established diplomatic relations with Romania and Yugoslavia in 1972. Relationship with Cuba was restored in September 1975 and diplomatic

contact with China was established the same year.

However, in the process, the U.S. could not intervene at all in the Philippines. As early as February 1970, Ambassador to the Philippines Byroade has seen Marcos' intention to power. He recommended the Department of State: "Marcos' extension of power also benefits the U.S., thus we should seriously consider not to oppose his move."<sup>25</sup> And the U.S. had to stand and watch the Philippines building contacts with Communist countries since 1972.

As described above, after the Nixon Doctrine announcement in 1969 and through their troops dispatch to Vietnam, there have been economic-political changes in South Korean, Thailand and the Philippines. Of course, these forms of changes are not the same. South Korea and the Philippines established the totalitarian regimes by emphasizing "self-reliance," while Thailand after the military coup strengthened the relations with the U.S. and then paradoxically, the military regime was overturned by its own citizens. Nevertheless, the commonality of these phenomena is the fear of "abandonment" due to weakened U.S. security commitment. Politically, it strengthened the "autonomy" or gave chances to Asian allies to carry out policies that beyond the range of the U.S. However, since the Nixon Doctrine announcement, the U.S. intervention in Asia was largely weakened and the U.S. had to cross its arms upon changes happened here.

## **Conclusion**

So far, there have been many studies on the impact of Vietnam War on involving countries, case-by-case. Most of these studies emphasize the internal factors rather than external ones. This is the same for the debate surrounding the rise of developmental state or the road to dictatorship in developed or developing countries. Internal factors, for example, the presence of strong leadership and technocrats, or the presence of pilot institution, have been thought to bring about an important condition for the state formation.

However, as discussed in this paper, the economic boom caused by the Vietnam War and U.S. policy changes with the announcement of Nixon Doctrine since 1969 brought about huge changes for Asian countries sending troops to Vietnam. If the economic boom played an important role in strengthening domestic support for the leaderships in these countries, then through troops dispatch to Vietnam, U.S. aid and support became a principle instrument to secure their external forces. In these circumstances, the declaration of Nixon Doctrine created a chance for authoritarian regimes to extend a certain degree of autonomy, which became an important background for the birth of illegal and abnormal totalitarian regimes in South Korea, Thailand and the Philippines. Although has always wished to build democracy here, the U.S. was not able to intervene in these countries. This resulted in unwanted outcomes out of U.S. Realpolitik policy's intention.

U.S. Asian allies shared some points in common. South Korea, Thailand and the Philippines are the three who dispatched their forces to Vietnam. Moreover, although did not send troops to Vietnam, Taiwan and Japan also enjoyed special impacts from the Vietnam War. To have a long-term vision, both South Korea and Taiwan were divided, and the Philippines and Indonesia had to face Communist riots and uprisings, though the scale of security threat was not large for these countries. In addition, South Korea, Japan and the Philippines are where U.S. military bases locate.

All of these commonalities show a similar symptom. The Nixon Doctrine, the Vietnam War and changes in U.S. policy in the world brought about huge shocks for Asia. This is a crucial root for the birth of extreme authoritarian regimes in the Philippines and South Korea in 1972. Obviously, these dictatorships had to consider domestic problems regarding their legitimacy. In the case of South Korea it was the security threat since the mid-1960s, while in the Philippines, it is the strengthening of Communist guerrillas, which became an important internal background for the establishment of dictatorship. Another thing in common was that after the 1970 both South Korea and the Philippines experienced financial crisis. And in order to overcome it, export-led policies were strongly promoted.<sup>26</sup>

Here one more thing should be noted. The period before and after the 1972 establishment of dictatorship soon led to democratization. The reinforcement of dictatorship was not due to the weakened intervention from outside but the consolidation of internal factor. The economic boom in the mid-1960s was a factor to strengthen dictatorship from inside, yet it did not mean that the system would erode bases for democratism. Thus, when the demand for democracy was getting stronger, the U.S. did not have the momentum to intervene once more. Though it was a different timing, the U.S. could not help watching the fall of military regime in Thailand in 1973 and eventually withdrawing from the country all the military bases. In the democratization process in the Philippines and South Korea in 1980 and 1986, more detailed research is needed on the role of U.S. intervention, yet the U.S. could not deeply involved. Prior to the 1970s, the U.S. did deeply involve in the political sphere of the Philippines, Iran and Vietnam, nurturing a pro-American while extreme anti-Communist regimes. Such regimes did have proper democratic mechanisms, yet the U.S. in the late 1970s was unable to significantly control internal situations of developing countries or the third world, where changes based on democratization have appeared.

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# **The Chaebol and the US Military-Industrial Complex: Cold War Geo-Political Economy and South Korean Industrialization**

*Jim Glassman, Young-Jin Choi*

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## Introduction

On 17 January 1964, as the administration of US President Lyndon B. Johnson (LBJ) was ramping up for war in Vietnam, the Office of the Assistant Secretary of Defense, Roswell Gilpatrick, issued a news release announcing it would conduct classified briefings for industry on its long-range buying (procurement) and development plans.<sup>1</sup> The Gilpatrick Memorandum, as it was called in the news release, “was addressed to the military departments and to the Heads of Defense Agencies engaged in development activities,” and noted that the industries to be invited to the six briefings to be held during the first half of 1964 were aircraft, arms and ammunition, chemicals and biologicals, electronics, missiles, and nuclear products, while those to be invited to the six briefings to be held during the second half of the year were clothing, internal combustion power, mechanical products, research, shipbuilding, and ground transportation. These briefings were to “provide industrial leadership with a DOD-wide picture of long-range development and procurement needs,” including projected shifts in development and procurement plans to meet the changing requirements of the US military program.” While the range of industries to be briefed might imply a broad program of information, the process was in fact highly selective: briefings were classified, no more than three people from the management of each corporate office were allowed to attend (owing to “the high-level approach being taken”), and firms were limited to those able “to obtain a suitable security clearance through the host department,” thus favoring those that already held R & D contracts with the Department of Defense (DOD).

While there is nothing particularly surprising about this kind of announcement, it can be used precisely for that reason to make a basic point about US defense contracts: participation in US military procurement is typically limited to specific, well-positioned firms in key industries and does not abide by the idealized principles of a “free-market” process. This fact, however, makes the story we will outline and analyze in this paper somewhat surprising. Defying the general procurement constraints, crucial South Korean industrial firms, chaebol, began to engage in enormous amounts of offshore procurement (OSP) contracting for the US

military from the Vietnam War era forward (and even earlier in the case of a few firms), effectively becoming players within the US military-industrial complex (MIC). This was a somewhat unique outcome among actors from the Global South, even among US Cold War allies, and we will argue that it helped shape in significant ways South Korea's unique and prodigious process of industrial transformation.

The literature on military procurement and US economic growth makes the role of such procurement in US industrial transformation abundantly clear (e.g., Ruttan 2006; Block 2008; Cumings 2010). Surprisingly, though, the role of military procurement in shaping development trajectories outside the Global North is not especially well studied. Even in the case of war-torn yet economically dynamic East Asia, the role of military procurement is under-analyzed: while much has been written about Japan's post-World War II recuperation and its relationship to US military offshore procurement (OSP) during the Korean and Vietnam Wars (Havens 1987, 102-104; Nakamura 1995, 43-52; Dower 1999, 540-546; Palat 2004, 7-36; Stubbs 2005, 66-73), very little has been written about the relationship of OSP to economic dynamism in other countries of the region. And even those corners of the neo-Weberian developmental state literature where scholars have paid some attention to general effects of military spending on growth, as in South Korea, the significance of OSP has not been systematically interrogated, major emphasis being placed instead on the role of state industrial policies (cf., Amsden 1989, 231-232; Woo 1991, 96-97).

Against this background, our purpose is in part to try to redress the neglect of OSP in accounts of the "East Asian miracle"—and, in doing so, to show that territorially-trapped, methodologically "nationalist," and geopolitically underdeveloped accounts of the South Korean developmental state and Korean industrial success are inadequate. We show that OSP—as opposed to general military assistance—is of particular significance for Korean industrial growth and should attract more attention than it has to date. And we also show that to foreground OSP in the fashion we do is to call attention to the geopolitics and transnational class dimensions of East Asian development and industrial transformation.

Our analytical lens, of course, affects deeply how we view the South Korean developmental state and the replicability or desirability of its policies. As we see it, among the "first-tier" of Asian newly industrializing countries (NICs) that began growing rapidly in the 1950s-70s, South Korea emerged as the base for an especially powerful, transnationally active capitalist class as the direct result of not only militarist developmental state policies but the geopolitical moment that made these policies viable, including unstinting US support for the South Korean Cold War state. One form of that unstinting support was

was a vast OSP program targeting South Korean firms, and we focus here especially on the role of OSP in the growth of South Korean construction firms, with Hyundai at the center of our story.

To position our argument, we start by briefly noting how the role of geopolitics in East Asia's industrial transformation has been marginalized in most neo-Weberian accounts of East Asian industrialization. While a small number of works on East Asian developmental states, most notably Jung-en Woo's *Race to the Swift* (1991), have delved into reasonable detail in this area, we show that two key paradigm-forming neo-Weberian accounts have systematically downplayed the importance of geopolitics and OSP to the political economy of East Asian development. We thus argue the need to go beyond these conventional developmental state arguments to clarify the significance of geopolitics to East Asian growth, and we do so empirically by placing the Korean developmental state's projects in the larger frame of global geo-political economic manoeuvres undertaken by actors within the US MIC. The fact that key Korean actors began to play roles within this complex, given the usual limitations on military contracting opportunities that we note above, is of great historical interest. The fact that it can be argued to have had significance for South Korea's patterns of industrial transformation makes the case of considerable theoretical moment as well.

### **Neo-Weberian Developmental State Theories and the Margins of Geopolitics**

Neo-Weberian accounts of East Asian developmental states and their roles in East Asia's industrial transformation have been among the most prominent and influential over the last three decades (e.g., Johnson 1982; Amsden 1989; Haggard 1990; Wade 1990; Woo 1991; Evans 1995; Kim 1997; Woo-Cumings 1999; Chang 2003, 2008). There are a considerable variety of specific claims within the literature broadly characterizable as neo-Weberian, and we do not wish to catalogue or summarize them here. In spite of what we take to be the general weaknesses of neo-Weberian approaches (see, e.g., Chibber 2003; author), we recognize the contributions made by neo-Weberians to our understanding of East Asian industrialization. With the exception of Woo's early work on South Korean transformation, however, we see in the neo-Weberian literature a deep and sometimes systemic neglect of specific geopolitical and transnational class influences on East Asian development, not least in assessments of military contracting and its significance. While not all of this neglect is inevitable within a neo-Weberian framework, it is nonetheless clear that the methodological nationalism and state-centric focus of neo-Weberian approaches inclines in this direction. We illustrate this point by showing how two crucial neo-Weberian theorists, Chalmers Johnson and Alice Amsden, got to the edges of the story we will tell while choosing to go no further, thus neglecting the implications of the geopolitical story for their accounts of developmental states. We focus most on Johnson's justly-celebrated and paradigm-establishing book about the paradigmatic developmental state, MITI and the Japanese Miracle (1982).

Johnson rightly notes that there are multiple factors that can potentially account for Japan's post-World War II developmental success, and he wisely disclaims any attempt to reject



other explanations (Johnson 1982, 8). Nonetheless, his arguments are clearly designed to make a case for Japanese industrial policy as an especially important factor determining Japanese success. The relatively lesser significance he accords U.S. imperialism and geopolitics in East Asia is captured by the way he deals with it in his outline of the book's major theoretical arguments. Johnson discusses four variants of what he calls the "anything-but-politics" approach to Asian economic dynamism (Johnson 1982, 7). He labels these the "national character—basic values—consensus" analysis, the "no-miracle-occurred" analysis, the "unique-structural-features" analysis, and the "free-ride" analysis. Johnson argues against all four of these, but since our approach comes closest to what he refers to as the "free-ride" analysis, we will limit our critique to his treatment of this analysis.

It is noteworthy that while Johnson cites advocates of the first three analyses, he does not cite any works that promote the "free-ride" analysis (Johnson 1982, 8-17). This, along with the various problems we note here for Johnson's arguments, suggests that he is constructing a straw man—even to the point of caricaturing more serious claims that deserve careful consideration. Johnson claims there are three ways in which Japan is said to have received a free ride: "a lack of defense expenditures, ready access to its major export market, and relatively cheap transfers of technology" (Johnson 1982, 15). Johnson regards each of these explanations as being inadequate. He does not, however, attempt to assess the combined effects of each of them—and, more importantly, he limits the list of factors that might have produced a so-called "free ride."

To note what we consider the most important omission, Johnson does not include on this list the contribution of the U.S. military's OSP to Japanese industrial growth. Even in statistical and quantitative terms, this contribution is recognized to be enormous, and Johnson cannot avoid mentioning it (see Havens 1987, 102; Nakamura 1995, 43-52; Dower 1999, 540-546; Palat 2004, 7-36; Stubbs 2005, 66-73). As he points out, U.S. procurements plus the expenditures of U.S. troops and their dependents accounted for 37 percent of all Japanese foreign exchange earnings in 1952-53, at the end of the Korean War, and still accounted for 11 percent in 1959-60 (Johnson 1982, 200). Since, on Johnson's account, the Japanese "miracle" had become evident by the early 1960s (Johnson 1982, 3), one would think that the impact on Japanese growth of 1950s offshore procurements and troop payments might deserve highlighting. Instead, Johnson downplays the matter, claiming that the offshore procurements windfall "created major international financial difficulties" by challenging Japanese firms to "obtain investment capital fast enough to re-tool to meet the orders that the Americans were placing" (Johnson 1982, 200). All capitalist development, no matter how successful, is hemmed in by contradictions and challenges, and certainly a windfall of procurement contracts poses certain kinds of challenges. But to label these as "major international financial difficulties" is to ignore the fact that these are "difficulties" almost any developing country would dearly love to confront, in contrast to the reality of relatively closed international markets and generally limited opportunities that most have faced. Japan did not confront these "difficulties"

only in the 1950s, moreover: when the Vietnam War intensified during 1965-1970, U.S. military orders from Japan rose by another US\$3 billion, pushing the procurement total for the 1950-1970 period to US\$10 billion, or US\$500 million per year for twenty years (Schaller 1985, 296).

U.S. OSP contracts provided a sheltered and virtually guaranteed market—and, crucially, they provided a market for a range of industrial goods that might have otherwise been difficult to sell on the relatively limited domestic Japanese market of the 1950s (Schaller 1985, 288). OSP thus allowed for rapid expansion of industrial capacity without fear of realization problems, in turn allowing Japanese industrial producers to quickly achieve economies of scale and become globally competitive—even before they had to enter more open global markets.

The fact that many firms might not be able to meet the amped up demands created by OSP is simply one of the inevitabilities of a booming capitalist market—it is scarcely a reason to neglect the importance of OSP in stimulating rapid economic growth. Indeed, Japanese producers and state planners responding to the opportunities created by the Korean War procurement boom did not do so: the head of the Toyota Motor Sales Corporation referred to the flood of new orders for Toyota trucks as “Toyota’s salvation,” though he lamented that he “was rejoicing over another country’s war;” and the Governor of the Bank of Japan referred to the Korean War orders as “Divine Aid” (Schaller 1985, 289).

It is worth noting that the effects of OSP we have noted here interact with the factors Johnson lists under the heading of the “free-ride.” Japan was spared defense expenditures, but it was also allowed to benefit from U. S. defense expenditures. It is not straightforwardly the case that defense expenditures place a burden on growth—but, in any event, Japan in the 1950s reaped a unique opportunity to benefit from war contracts without having to pay for these out of its own public till. Japan also gained, through OSP, ready access to its major market. But, as we have noted, it even gained access to a sheltered market, for once a bid has been successful the firm attaining the procurement contract no longer has to compete directly to realize its investment; it simply has to produce to required standards and on schedule. As we will show in the case of Korea, the process of competitive bidding for military contracts scarcely replicates what neo-classical economists would construct as “free-market” competition, and so the kind of “market access” Japanese firms gained for military procurements needs to be seen as a special kind of protected market access that exceeds—in the benefits it provides—the kind of access to which Johnson refers (i.e., access to the U.S. market with limited tariffs or quotas).

Finally, procurement contracts also facilitate technological development in various ways. As we will again note in the case of Korea, U.S. OSP contracts often demand that the contractors use equipment meeting specifications put forward by agencies like the U.S. Agency for International Development (USAID) and the U.S. Government Accounting Office. Frequently, these standards are rigged to insure that the contractor will have to purchase production equipment from U.S. firms. But this may in turn give the contracting firms

opportunities—at an initial cost—to study and work with state-of-the-art technology, thus increasing their own capacity for developing these technologies (including through reverse engineering). Moreover, where the contractor does not have to purchase new equipment, the contract provides an opportunity to deploy and further their own productive technology in a context encouraging the economies of scale so vital to such technological development. So, again, the OSP process goes well beyond what Johnson suggests as the opportunities provided by the “free-ride.”

This having been said, we do not adhere to Johnson’s terminology or claim that firms gaining OSP contracts merely got a “free ride.” As we will show, there was much geopolitical manoeuvring and considerable hard work by employees of the chaebol that went into making and taking advantage of OSP opportunities. But recognition of these autonomous efforts cannot sanction shunting OSP into the background.

Johnson’s choices in this regard established the theoretical paradigm for much later neo-Weberian scholarship, including Amsden’s also justly-influential work on South Korea, *Asia’s Next Giant* (1989). Since we will address the Korean case below, we can be far briefer here in noting the ways Amsden backs away from the geopolitical and OSP story. Military contracting does in fact come up—as it inevitably must—in her discussion. For example, Amsden notes that Hyundai reaped enormous developmental benefits from processes such as learning how to tender a competitive bid and complete a project to the specifications of the U.S. military (Amsden 1989, 231-232), and she acknowledges the significance of such contracts to Hyundai’s cash flow, noting that between 1963 and 1966 military contracts accounted for 26 percent of Hyundai’s construction revenues and 77 percent of its total profits (Amsden 1989, 266). Yet Amsden provides no systematic account of the effects of military contracting on Hyundai’s development, let alone that of any other firm, and she entirely bypasses the significance for Korean development of financial flows generated by participation in the Vietnam War and later US ventures in the Middle East. As such, the brief mentions of this geopolitical dimension of Korean development slip to the background, becoming part of the general context within which the purportedly more important matters of developmental state decision-making took place.

In the empirical case study that follows, we show that this kind of neo-Weberian neglect of the geopolitical dimensions of East Asian development—and particularly of the military contracting story—is not benign. Not only was South Korea’s participation in OSP quite massive and relatively unique among developing countries, it can be argued to have had considerable effect on Korean development trajectories. We show this by focusing on the effects of the Vietnam War and subsequent activities of the US MIC in the Middle East, indicating the enormous impact of the Korean construction industry’s participation in these ventures. Since the analysis we present is part of a much broader project assessing the geopolitics of industrial transformation throughout East and Southeast Asia, we also position the South Korean construction industry story against

the backdrop of broader geopolitical developments and diplomatic manoeuvring in and around Vietnam.

### **The Vietnam War and South Korea's "Take-Off"**

Among the "first-tier" of Asian newly industrializing countries (NICs), South Korea emerged after World War II as the base for an especially powerful, transnationally active capitalist class, and this was the direct result of both highly militarist developmental state policies and the geopolitical processes that made these policies viable (author). Some crucial chaebol such as Samsung, founded by a Korean industrialist who developed his business under Japanese colonialism, grew primarily on the basis of revived connections with Japanese capital and the US market. These were made possible in part by intensive US lobbying and triangular political manoeuvring between US, Korean, and Japanese business and political leaders who had to overcome popular opposition to normalization of relations with Japan among students and small business owners in South Korea (Chibber 2003, 324; authors). Other chaebol, such as the shipping giant, Hanjin, and the construction and industrial behemoth, Hyundai, grew dramatically as the result of US military OSP and the opportunities for windfall profits and significant technological upgrading that these contracts provided—as well as the opportunities to subdue industrial labor that were created by the Cold War state (Ogle 1990; Hart-Landsberg 1993; Koo 2001; Kim and Park 2007). In this sense, one segment of the post-World War II Pacific ruling class (cf., van der Pijl 1984, 1998; author) connected the US MIC and its capitalists—such as Lyndon B. Johnson's crucial construction cronies Brown & Root (Gardner 1995, 8-9; Chatterjee 2009, 23-28)—first to Japanese capitalists and then South Korean capitalists, such as Ju-Yung Chung of Hyundai, as well as to the Japanese and Korean developmental states. Here, we outline some details of this process of alliance formation as it enrolled Korean capital in the US MIC from the early years of US intervention in Vietnam.

In late 1963, General Hamilton Howze, Commanding General of the Eighth US Army and Commander-in-Chief of US Forces in Korea, forwarded to LBJ his recommendations for reducing the level of US forces in South Korea.<sup>2</sup> Subsequently, in May 1964, the Johnson administration authored National Security Action Memorandum 298, calling for study of the possibility of re-deploying a US Division from Korea to Hawaii.<sup>3</sup> This was part of an overall military reappraisal that resulted not only in the shifting of military forces toward Southeast Asia but a planned reduction in the military items the US allowed its allies to purchase through its Military Assistance Program (MAP)—this shift being called the MAP transfer program.<sup>4</sup> The consequences of both reduced troop levels and MAP transfer were seen by the highly militarized regime of Park Chung Hee as financially serious. Thus, military reconfiguration and rearrangement of military spending became crucial items in US-South Korean diplomacy.

In this context, the Park regime—at the request of the US-backed South Vietnamese



government (Kim 1990, 249; Yi 2000, 154-157)—made an offer that turned out to be highly consequential for the resources of the Korean developmental state and the chaebol. By 1964, South Korea had already sent a mobile army surgical hospital (MASH unit) to Vietnam, and it augmented this in early 1965 with 2,416 non-combatant troops (Kim 1990, 233). Korean commitments to support the US war effort in Vietnam developed in the context of the Johnson administration's "more flags" program, inaugurated in April 1964 as an attempt to gain more international support for the US-backed regime in Saigon (Kahin 1987, 332; Hatcher 1990, 57-58; Yi 2000, 156). With this program failing to generate much commitment among US allies in Southeast Asia, Park jumped in and made himself more valuable to the LBJ administration, offering to send a combat unit to Vietnam. Earlier feelers regarding US interest, floated by former Prime Minister Kim Hyon-Chol, had been discouraged by the US Embassy; and US Secretary of State Dean Rusk originally rejected Park's more formal offer, noting—among other reasons—that the US had yet to send combat troops of its own, but suggesting that Korean special forces personnel could play useful roles as advisors and trainers.<sup>5</sup> Nonetheless, Park's move struck a responsive chord in Washington since it offered something tangible to the US Cold War state—something not being offered by Japan or US Southeast Asian allies (Yi 2000, 156-157; Kim 1990, 249-255).

Subsequently, US planners began to take very seriously the prospects for employing foreign troops in Vietnam. By the time Park's 1965 state visit to Washington was in the offing, National Security Advisor McGeorge Bundy was suggesting to US military leaders the utility of employing ground troops from Australia, the Philippines, South Korea, Thailand, and possibly Pakistan (Gardner 1995, 182). And after Johnson's April 1965 commitment of US ground troops, his administration arranged a June meeting between US and Korean military leaders, leading to an official request for Korean support from the South Vietnamese government and, finally, to a vote for Korean troop commitments by the South Korean parliament in August (Kim 1990, 249).

In this process, Park didn't merely offer the services of Korean troops in Vietnam but negotiated to gain pay levels for enlisted men that were 22 times regular Korean military pay (Kahin 1987, 335; see, also, Kim 1970). This would allow Korean troops to send US dollars home to Korea, and would help make up some of the economic losses that would be incurred if US troops were removed from South Korea (Yi 2000, 159-161).

At the same time as South Korean combat units were thus being lined up for service in Vietnam, Park's government fought hard to eliminate or reduce the MAP transfer (an effort in which it eventually succeeded), and by early 1965 it began promoting another way for South Korea to participate in the Vietnam War and earn more dollars at the same time. In January, Park's Ambassador to the United States met with McGeorge Bundy aid Chester Cooper and requested that the US military consider purchasing construction materials such as cement from South Korea.<sup>6</sup>



way for South Korea to participate in the Vietnam War and earn more dollars at the same time. In January, Park's Ambassador to the United States met with McGeorge Bundy and Chester Cooper and requested that the US military consider purchasing construction materials such as cement from South Korea.<sup>6</sup> In May, the US Ambassador to South Korea cabled the State Department noting that Korean representatives would also ask for opportunities to bid for provision of supplies and services to the US military in Vietnam.<sup>7</sup> Park and other Koreans were well aware of the importance of US military OSP to Japan's rapid growth in the 1950s—an outcome that stung because Japan, the former colonizer, had benefited from post-colonial Korea's torment during the Korean War. In this context, it further irritated Park and his advisors that Japanese firms continued to mop up large amounts of US dollars for Vietnam War OSP. The problem for South Korean firms, however, was that as of the 1960s few of them could expect to win a competitive bid against the Japanese firms that were already doing much of the US military's Vietnam War contracting. As such, Park made a special plea: he asked that the US military allow Korean firms guaranteed opportunities to obtain OSP contracts, under conditions of limited or no competition, especially from Japanese firms.<sup>8</sup>

The uptake of this request, and the ways it synergized with the offer of a combat battalion for Vietnam, make for an instructive study in both the internationalization of the state and the deep fusion of military and economic affairs. Park's request was not in fact entirely novel and had not originated solely in Korea. In 1962, for example, US General James Van Fleet, a staunch supporter of the Park regime who was prodding the Kennedy Administration to back it unflaggingly, argued for shifting some of the procurement that the US military was undertaking in Japan to South Korea, including trucks that could be purchased in stripped form from Japan and assembled in Korea with Korean tires and batteries.<sup>9</sup> Park's people were clearly aware of these issues and of the support they might gain among some US planners for increased OSP in Korea, and by 1965 they found another crucial ally in US Ambassador Winthrop Brown. Brown ultimately helped Park in pushing through a series of agreements that one can hardly regard as anything but a windfall for the Korean state and Korean firms, including an agreement on special procurement (Kim 1970, 529; Yi 2000, 163).

In a July 10, 1965 cable to the State Department, Brown noted that Park's request for special procurement opportunities could not be granted.<sup>10</sup> But at this point Park's regime manoeuvred both a US-backed treaty for normalization of relations with Japan and the approval of combat troops for Vietnam through the parliament, more or less over the heads of political opponents, with the opposition parliamentarians ultimately walking out in protest over Park's tactics and the ratification vote being taken in early August with only Park's party in attendance (Kim 1990, 247-248, 278).<sup>11</sup>

Notwithstanding the lack of a ringing democratic mandate, Park's position was strengthened, especially in relation to the United States, and as the final arrangements for Korean troop deployments to Vietnam were made, Brown changed his tune and began to move toward Park's position in favour of special OSP opportunities. In a September 23 memorandum to

the Director of USAID, Brown made a pitch for understanding South Korea's unique situation:

Korea is providing a full combat division plus a non-combat engineering unit to Vietnam. While the ROKG and the U.S. have repeatedly maintained that such action was based on Korea's own interests in the war in South Vietnam and its responsibilities to the Free World, there is inevitably the feeling within Korea, and particularly in the Assembly, that Korea should receive some tangible trade benefits from its willing response to the request for troops. This feeling is fortified by the feeling that persists in Korea that Japan profited greatly economically from the Korean War. Korea now sees an opportunity to capitalize itself on the economic consequences of the Vietnam engagement. But, equally important, Korea sees an implication that while Korea is contributing troops to the war, Japan may once again be making large profits through U.S. offshore procurement.<sup>12</sup>

By December 1965, as the Johnson administration awaited the arrival in Vietnam of the first Korean combat troops and pondered a request for even more (Yi 2000, 168), Brown pushed further, in a cable to the Department of State:

[I]f the Koreans make this further troop contribution, it will be utterly impossible for them to understand why there can be no preferred treatment for them in matters economic, especially as they relate to SVN. They will be making a contribution in the irreplaceable commodity of human life, and doing so on a scale utterly disproportionate to the contributions of their competitors, particularly Japan. In such a case, the assurance of equal treatment with these competitors seems small recompense...It seems to me that we are being faced with a political and human problem directly related to a bloody war in which we are deeply committed, to the solution of which our normal commercial policy and peacetime procurement must also make their contribution.<sup>13</sup>

In reality, what Brown was starting to propose was not "normal commercial policy" or "equal treatment" but a convenient bending of official procurement rules. This became evident when on January 19, 1966 he noted in a cable to State that "Preferred treatment for Korea under OSP program becoming one of most important issues in negotiations with ROKG to obtain decision dispatch troops."<sup>14</sup> On January 27, Rusk cabled Brown with a summary of what the United States proposed as part of these negotiations, including the following:

To procure in Korea, in competition only with US suppliers, as much as Korea can provide and in time at a reasonable price, a substantial amount of goods being purchased by AID for use in its project program for rural construction, pacification, relief, logistics, and so forth, in RVN...To the extent permitted by RVN, to provide Korean contractors expanded opportunities to participate in construction projects undertaken by USG and American contractors in RVN and to provide other services...Additionally, parallel employment of skilled Korean civilians in RVN can provide sizeable foreign

exchange earnings.<sup>15</sup>

These proposals from State, which allowed Korean firms opportunities to bid on OSP contracts without competition from Japan or other non-US firms, became the basis of the “Brown memorandum,” a March 4 letter from Brown to Foreign Minister Lee Tong Won, outlining a whole series of special economic concessions the US government was willing to make to Korean economic and military actors (Subcommittee on United States Security Agreements and Commitments Abroad 1970, 149-150; Baldwin 1975, 36-37). As we will show, the consequences of this agreement were substantial for both the Korean developmental state and the Korean *chaebol*.

### **Hyundai, Korean Construction Firms, and the Profits of War**

The story of Hyundai’s development in the context of the Cold War exemplifies the effects of OSP on Korean industrial transformation. Hyundai founder Ju-Yung Chung established the firm after liberation from Japan, in 1946, and some of his biggest breaks came after that, when his company received contracts to deliver goods to the US military during the Korean War (Hyundai 1982, 1197, 1207; Cumings 2005, 302). Crucially, Hyundai received contracts during this period to build US Army barracks and to expand the national airport. Both the profits and the experience that Hyundai gained from this—including the upgrading of its engineering skills under the tutelage of the US Army Corps of Engineers—allowed it to expand its construction operations and become, by the 1950s, South Korea’s most powerful construction and heavy industry conglomerate (Jones and Sakong 1980, 356-357).<sup>16</sup> Still, in this period, Hyundai was primarily a domestically-oriented *chaebol*, undertaking projects within Korea. In the 1960s it was to rapidly become a much more internationalized firm, indeed one of the world’s most well-known construction and heavy industry companies.

How this occurred is once again directly related to Hyundai’s relationship with the US military. Having already developed good relations during the Korean War, Chung was able in the 1960s to gain contracts for World Bank and US military projects in Thailand, Vietnam, and Guam, as the US military expanded its war effort in Southeast Asia. The experience and capital accumulated through these projects allowed Hyundai to undertake more infrastructure projects in South Korea during the same decade, and by the 1970s it had expanded further to undertake major construction projects in the Middle East (Jones and Sakong 1980, 357-358; Hyundai 1982, 1207-1209). Most impressively, in this period Hyundai expanded into shipbuilding, a field in which it had no previous experience and which it was reputedly exhorted to master by Park Chung Hee (Jones and Sakong 1980, 357-358; Cumings 2005, 323-324).

However crucial was this backing and exhortation from the Korean state, the role of the US military and Cold War state looms especially large. This much is agreed on in the few accounts emphasizing the financial spur provided to Hyundai by large US OSP contracts. But the role of the US military was even more substantial than this quantitative contribution,

as can be explained by several sometimes noted but little-analyzed chapters in Hyundai's history, the first being the firm's construction of the Pattani-Narathiwat Highway in southern Thailand during 1965-1968.

The Pattani-Narathiwat Highway project was connected to the US expansion of its military presence in Thailand as part of the Vietnam War effort (Jones and Sakong 1980, 357). Hyundai's own corporate history makes much of this project and explains its evolution in considerable detail. In recounting some of that detail here we can highlight the project's significance—both for Hyundai's development and for our argument regarding OSP. Hyundai had originally been invited by the US Operations Mission to build landing strips in Thailand, based on the company's experience with this in Korea (Hyundai 1982, 1197). Chung's brother, who was fluent in English and worked for the US government as a translator, opened the first branch of Hyundai Construction in Thailand in late 1964 (Hyundai 1982, 1206). The Pattani-Narathiwat Highway project started in September 1965, after Hyundai won a bid for it, with funding coming from the International Bank for Reconstruction and Development (World Bank). Construction was begun in January 1966 and completed in May 1968, with the road covering 98 kilometers, requiring three large bridges and 35 smaller bridges (Hyundai 1982, 2028; 1997, 466).

In spite of the fact that the project was considered by the Korean state at the time to be a major venture and international event (Hyundai 1997, 466), and in spite of the fact that the state provided Hyundai with considerable backing, the Pattani-Narathiwat Highway was a debacle. The company encountered numerous problems with issues ranging from climate to language and cultural differences (Hyundai 1982, 2028, 2047; 1997, 467). Because of these problems, by the time the Pattani-Narathiwat Highway was complete the company had lost 288 million won (Hyundai 1997, 467).

The reasons for these losses—quite massive, in that they came to the equivalent of US\$3 million on a US\$8.2 million contract (Hyundai 1997, 467)—were various. Most generally, they had to do with the inability of the firm to build the road to the specifications of the US military. At the outset, while Hyundai had hoped to use older US war surplus construction equipment that it already owned, the US military supervisors insisted this was inadequate and forced the firm to buy newer Japanese equipment. Moreover, at one point Hyundai was forced by the US supervisors to tear up a full kilometre of road that was already built, because of its poor quality. So severe were these kinds of difficulties in meeting quality standards that some Hyundai managers suggested to Chung simply abandoning the project—a suggestion that was aborted by Chung (Korea Daily Joong Ang 2008; Lee 2011, 62).

In what sense, then, was the Pattani-Narathiwat Highway a success for Hyundai, as the company history claims, and an important step in its development? The venture should be placed in the context of management's reasoning at the time regarding its options for expansion. Chung had been one of 13 business leaders arrested by Park Chung Hee after



the coup that brought Park to power in 1961. The businessmen were accused of being “illicit accumulators” of wealth, and although Park did not in fact seriously punish any of these business leaders—primarily prodding them to work in the “national interest” (Amsden 1989, 72; Kim 1996, 82; Chibber 2003, 66-69)—his tactics encouraged them to do a variety of things to ward off such attacks in the future. Chung went on the offensive to protect his business interests by looking more aggressively for overseas investment opportunities. He reasoned that Hyundai’s experience as a US military contractor would give it an edge in meeting US-imposed international construction standards. In this context, the expanding regional market created by the Vietnam War appeared to provide the most viable avenue to high returns on investment (Hyundai 1997, 464-465).

The reasoning made sense, but the outcome in Thailand failed to meet expectations. Nonetheless, the official company history regards the Pattani-Narathiwat Highway project as a success story and crucial to the company’s development. This is because of the technological and institutional learning that occurred in the process. Within the firm, all the Hyundai officers who later became heads of Hyundai subsidiaries were involved in the Pattani-Narathiwat project and got training in meeting US-imposed international construction standards—these officers including eventual South Korean President and then Hyundai Construction manager Lee Myung Bak (Hyundai 1997, 466; Lee 2011, 57-68). The project highlighted the limits of Hyundai’s engineering development and forced the company to meet global standards, upgrade its technological skills and capacity for innovation, and improve its ability to train and control labor, including using modern communication techniques with workers to secure their performance (Hyundai 1997, 467-468). In addition, the company first learned in Thailand—at the suggestion of US military engineers—about a project management method called the Critical Path Method (CPM), which it was subsequently to begin employing successfully on other projects.<sup>17</sup>

It was on the basis of this kind of experience and upgrading of its engineering and management skills, moreover, that Hyundai was able to successfully complete the Seoul-Pusan Highway in 1970 (Hyundai 1997, 486-487), and then to expand not only into other construction ventures overseas but into other lines such as shipbuilding—which was directly developed out of Hyundai’s construction division (Hyundai 1997, 468). As neo-Weberian developmental state theorists argue, Hyundai was deeply assisted in this expansion by Park Chung Hee’s willingness to devote state resources to projects that could generate national industrial growth—but it was also deeply enabled by transnational forces well beyond Park’s control.

Another under-analyzed chapter in Hyundai’s history that we want to examine is the company’s contracting history in Vietnam. This history is so extensive that it cannot be recounted with any one example such as the Pattani-Narathiwat Highway. Hyundai contracts in Vietnam covered construction ventures such as building military housing, and also activities such as the dredging of Cam Ranh Bay, from which it made the lion’s share of its revenues (Lahlum 1967; Hyundai 1997, 469-472). The quantitative significance of Vietnam War contracts is



noted by Amsden, who cites figures claiming that already during 1963-1966 military projects accounted for 26 percent of Hyundai Construction's total revenues and 77 percent of its total profits (Amsden 1989, 266). The quantitative significance of Hyundai's contracts was indeed great, as we will show below, but the qualitative significance of the contracts, we would argue, was even greater.

Hyundai, like many other Korean firms, moved into Vietnam in part on the strength of the OSP opportunities opened up by the Brown memorandum. Equally significantly, it did much of its work under sub-contract to the major US conglomerate organizing the vast majority of US contracting work in Vietnam, the Halliburton subsidiary Raymond, Morrison-Knudsen, Brown & Root and J. A. Jones, or RMK-BRJ (Lahlum 1967; Carter 2008). LBJ had risen to political power in the United States in no small part on the strength of his connections to George and Herman Brown, the founders of Brown & Root (Gardner 1995, 8-9), and as the parent conglomerate that grew from this Texas construction company, Halliburton became one of the most powerful and favored firms of the LBJ regime (Chatterjee 2009, 23-28).

By sub-contracting with RMK-BRJ, Hyundai was in its own way beginning to participate yet more fully in the US MIC and the Pacific ruling class. A Hyundai manager who worked in both Thailand and Vietnam has noted to us how Hyundai's Vietnam experience differed from its experience in Thailand and how the former contributed to the company's development.<sup>18</sup>

Whereas in Thailand the company had been forced to buy new construction equipment to meet quality standards, in Vietnam all the requisite equipment and construction materials were provided in abundance by the military and the parent contractor. Indeed, as the company worked to improve its ability to make precast concrete (PCa) for prefabricated building construction—a technique that was to subsequently pay great dividends in the Middle East—the US military supplied it with the necessary concrete mixing machinery.<sup>19</sup> And whereas in Thailand the company had to experiment on its own with meeting quality standards, sometimes failing and paying the price, in Vietnam it was literally trained directly by US military engineers on how to meet construction standards. Moreover, when it built military housing in Vietnam, Hyundai engineers had to begin working with a wider variety of forms of heavy equipment, including learning to undertake repairs and mastering the international engineering standards connected with use of such equipment. Given these advantages, opportunities, and demands not only did Hyundai engage in tremendous learning and technological upgrading in Vietnam, but unlike in Thailand it profited enormously and accumulated considerable financial capital—much of this, again, being ploughed back into projects in Korea, such as the building of an airstrip in Osan.<sup>20</sup>

Hyundai's corporate history mentions several important and specific aspects of the company's process of technological upgrading in the context of the Vietnam War, and

its related activities in the same era at the US military facilities on Guam. In Vietnam, the company's main activity was dredging, and it purchased its two dredges from the Japanese firm Nomura, purchases facilitated by the OSP revenue the company was reaping. Hyundai studied and worked with these dredges to master their operation and mechanics (Hyundai 1997, 469-472), one of several technological learning endeavours that contributed to the firm's later ability to segue into activities like shipbuilding (Hyundai 1997, 507-509).

In Guam, the US military base that supported the Vietnam War effort, Hyundai engaged in a variety of projects during the period 1969-1975. One of the most significant kinds of projects undertaken in Guam was construction of military barracks and houses, which required mastery of a range of new construction processes. This included further employment of pre-fabricated housing and the PCa method, which enabled the company to complete housing projects far more quickly. The development of the ability to rapidly build prefabricated structures, along with the revenues Hyundai generated from construction contracts and sale of houses in Guam (totalling over US\$70 million in earnings), formed foundations for the construction company's quick and massively successful moves into the Middle East at the end of the Vietnam War (Hyundai 1997, 469-472).

The rapid engineering and technological upgrading of the company during the Vietnam War era is illustrated by the differences in outcomes between several projects of that era that were undertaken just a few years apart. In 1969, Hyundai received a private contract to build a bridge in Alaska, and in 1970 it received a private contract for dredging in Bunbury, Australia. It lost money on both projects. By 1972, its OSP opportunities had enabled it to master CPM and some other engineering practices such as the use of deep well pumps, while its general expansion had enabled it to master such techniques as the New Austrian Tunneling Method, a method for monitoring the performance of underground construction, which it learned from the Austrian government.<sup>21</sup> As a consequence, in 1972 Hyundai was able to successfully complete the Ramu underground hydro plant in Papua New Guinea, generating a profit of 30 percent on its investment (Hyundai 1997, 469-472).

More generally, based on its Thailand, Vietnam, and Guam ventures, Hyundai was able to expand its operations both sectorally and geographically. The several thousand engineers that were trained in this era became crucial to the company's overall development, continuing to work for the company, training the next generation of engineers as the company expanded into different fields of activity—such as heavy industries, shipbuilding, and automotive (Hyundai 1997, 384-385)—and even in some cases moving to other Korean firms and helping them develop their construction and engineering capacities.<sup>22</sup> Moreover, Hyundai's financial growth in this era funded the subsequent expansion into projects in the Middle East, where the company began to generate truly enormous revenues even in comparison to those from its Vietnam ventures (Figure 1). These Middle East projects, fittingly, came to fruition as the presidency of Hyundai Construction was assumed by former Korean military General Chang Woo-Joo, who had also been involved in the negotiations with the Johnson administration that led to the Brown memorandum.<sup>23</sup>

Hyundai's construction contracting history from the Vietnam era forward is worth further reflection. As Figure 2 makes clear, one of the striking features of this history is that OSP contracts were consistently available to the firm—and in increasing dollar amounts—over the entire period from 1965 to the late 1980s. As Vietnam War contracts subsided, Hyundai received new contracts for work in Guam, and as these subsided the boom in Middle East contracts (officially registered through Saudi Arabia) drove the value of procurement orders even higher; and even as the Saudi contracts diminished a number of OSP contracts for work in South Korea itself partly filled the gap. By the end of the 1980s, of course, Hyundai had become a much different company than in the early 1960s, and its dependence on OSP diminished dramatically. But this industrial maturation evolved over a 40-year period (counting Korean War era contracts) in which the firm was consistently able to take advantage of the growth and technological development opportunities provided by US military orders.

Hyundai is no doubt one of the premier cases of this kind of OSP-enabled transformation in South Korea, but it is scarcely unique (on Hanjin, see, e.g., Woo 1991, 68, 96-97). For example, firms such as the large but more domestically-oriented construction company, Daelim, had experiences very similar to those of Hyundai, except for the absence of OSP opportunities in Guam (where Hyundai was the sole Korean contractor). Indeed, as Figure 3 shows, Hyundai was not even the South Korean construction firm that reaped the most in OSP contracts over the 1965-1991 period. Moreover, as Figure 4 shows the value represented by these contracts was substantial; the total value of US military construction and engineering contracts received by South Korean firms—not counting here private contracts or the large number of sub-contracts with firms like RMK-BRJ—can be very conservatively estimated to have equalled as much as 25 percent of value added in the construction industry during the Vietnam War era (averaging 21 percent) and 35 percent during the Saudi period (averaging 18 percent). These figures do not include, either, revenues from the large numbers of privately contracted construction projects in places such as the Middle East that were fundamentally made possible by the geo-political economy of military procurement and the movement of Korean firms into regions where the US military was becoming increasingly active. (See, e.g., <http://www.samwhan.co.kr/sw/english/>, which contains a list of the enormous number of private sector projects carried out by the most prolific US military contractor among the construction firms, Samwhan corporation. Though the list does not indicate the dollar value, the fact that it shows some 125 international projects between 1971 and 2006, most in the Middle East, and 514 domestic projects over roughly the same period, as compared to the 43 projects it undertook under US OSP from 1965-1975, and the 329 such projects it undertook from 1975-1991, gives a sense of the importance of these private sector contracts that piggy-backed on US OSP.)

To place these figures in further relief, construction output reached 9.4 percent of total South Korean GDP by 1979, and 11.3 percent by 1990, the highest share for

any OECD country during the latter year (Field and Ofori 1988, 44; Park 2011, 190). In-Young Kim notes that overseas construction accounted for between 7.5 and 11.5 percent of total South Korean GDP growth during the years 1977-1981 and was the leading source of chaebol accumulation during this period (Kim 1996, 106, 119). When one adds that the construction industry is known to have historically strong connections to manufacturing growth (Bon and Pietroforte 1990), and that South Korea's construction sector has been shown to have had especially strong backward linkages to a wide range of other industries (Park 1989, 371-372; Polenske and Sivitanides 1990, 154-159), the importance of the construction contracting history that enabled much of this growth becomes clear. Indeed, it would seem to provide a key to understanding why the South Korean growth dynamic has resulted in what Bae-Gyoon Park and others call the rise of a "construction-oriented state" (Park 2011).

It is clear that here we are dealing with a socio-spatiality that exceeds much of what is described in the neo-Weberian literature. In that literature the role of the US in providing a security umbrella, in providing military contracts, in providing aid and assistance, and in providing preferential access to the US market is mentioned, even if somewhat infrequently. But what we have argued here is that the US Cold War state did not merely passively provide what one could regard as the enabling background conditions for the activity of the Korean developmental state; rather, in the case of Hyundai and other Korean construction firms, it actually entered constitutively into the development of the firms' industrial capacity, while—insofar as it disciplined firms in particular instances—it actively carried out one of the roles more frequently attributed to a developmental state. In other words, geopolitics and political economy were deeply fused in the class and class-relevant transnational processes by which Korean chaebol were inducted into the US MIC and the Pacific ruling class.

We can provide a sense of the overall significance of OSP to the Korean economy—and thus a sense of the overall importance of the geo-political economic issues we have been analyzing—in Figures 5 and 6. Figure 5 shows the overall levels of OSP and MAP assistance received by the major US Vietnam War allies, South Korea, Thailand, and the Philippines, while Figure 6 shows what these absolute amounts came to as a share of gross fixed capital formation (GFCF) in each economy. We note that the figures must be regarded with some caution. The figures on both OSP and MAP come from a US National Archives database that lists contracts for the Vietnam War and other "Prime Contracts." This data set does not include all contracts. At the same time, a number of firms listed under the country headings for OSP are firms with North American names, implying that they were possibly branches of US-based corporations receiving contracts for work overseas (though there are far fewer of these in the case of South Korea). The former problem leads to the figures being underestimates, while the latter could lead to overestimation, though more so for Thailand and the Philippines than for South Korea. Given the large number of unlisted sub-contracts, underestimation is the more likely problem, but in any event we take the general magnitudes and trends indicated to be significant, and we would note that they fit relatively comfortably—in their general implications—with some of the figures on the importance of



US economic and military assistance to South Korea that are cited by Woo (1991, 45), and also with the assessment of authors like Seiji Naya (Naya 1971).

Clearly, with OSP and MAP collectively equalling between 40 and 60 percent of South Korea's GFCF during the late 1960s, their significance for the ramping up of Korea's industrial "take-off" was enormous. We would emphasize, however, two specific qualitative claims that are embedded in the quantitative data. First, as we have already tried to show, OSP has a significance that goes well beyond the volume of capital it pumps into economies, though the volume is by no means irrelevant. OSP provides a direct subsidy—and protected market opportunity—to specific industrial firms, thus contributing in tangible ways to the very processes of learning, development of engineering skills, and technological upgrading that are core concerns for developmental states and their theorists. As such, we think the enormous windfalls to Korean firms from Cold War era OSP need to be counted among the crucial conditions for the success of both Korean chaebol and the Korean developmental state.

Second, and related to the first point, we have shown the amounts of Korean OSP and MAP compared to the figures for Thailand and the Philippines to make a broader point about both the regional economy and the South Korean developmental state. We have emphasized the transnational dimensions of Korean dynamism, and in Figures 5 and 6 what we also illustrate is that this dynamism was part of a hierarchical regional process in which not all players within the Cold War alliance were equal (see Cumings 1984; Bernard and Ravenhill 1995; Hart-Landsberg and Burkett 1998; author). The US Cold War state was clearly the dominant player, even though it could not simply dictate terms to regimes like Park's. Japanese elites played the role of silent regional sub-hegemon, gaining in fact a much larger share of OSP than Korea, though this was far less important to Japan's overall economy by the late 1960s because of its much greater size (Havens 1987: 102-106).

Among the Asian allies that provided troops to the US war effort, South Korean elites benefited the most. Korean industrial firms' receipt of especially large amounts of OSP—including long after the Vietnam War was over—both reflected their regional position as of the 1960s and helped to further consolidate that position by the 1980s. Even though firms like Hyundai were relatively small players in the 1960s, they were more powerful and developed industrial producers than any firms in Thailand, where the economy was far more dominated by Sino-Thai merchant capital, agribusiness, and bankers (Hewison 1989; author). These differences were in turn amplified by the Vietnam War and OSP: while Korean construction firms sucked in large amounts of OSP and began to assert themselves as powerful regional players, Thailand gained economic and military assistance that spurred rapid economic growth, but without undergoing a similarly dynamic industrial transformation. Naya's study confirms how the Vietnam War economy helped consolidate this differential pattern: 75 percent of the value of Thai exports to Vietnam came from rice, while for South Korea most exports were manufactured goods, including



many “new industrial products,” with Vietnam absorbing 94 percent of Korean exports of steel products and 52 percent of exports of transport equipment (Naya 1971, 42-45). The consequences of these kinds of differential development trajectories are obvious to most observers today (see Doner 2009): while firms like Samsung, Hyundai, LG, and Hanjin are not just Korean but global brand names, there are no comparable, globally-recognized Thai industrial firms.

The case of the Philippines is slightly different. In the 1950s, the Philippines was one of the most industrially developed countries in Southeast Asia, and was in at least as strong an economic position as South Korea. Naya’s study shows that even by the late 1960s, although its exports were limited, the majority of Philippine exports to Vietnam were manufactured goods (Naya 1971, 42). The Philippines’ tortured subsequent history is a topic we cannot recount here, but we note one important dimension that relates to our case study. In 1966, as it surveyed the OSP opportunities being opened to South Korea by the Vietnam War, the Marcos regime—which was supplying non-combat troops and engineers to Vietnam—asked the LBJ government for special procurement opportunities. Certainly, there were Philippine firms with some of the necessary capacity. But the Johnson administration replied in the subtly dismissive fashion that one might expect from a former colonial master: the US would set up an office in Manila to facilitate Philippine firms getting information about OSP opportunities, Marcos was told, but no special favors could be expected.<sup>24</sup> As the data in Figures 5 and 6 make clear, the Philippines did not in fact gain any substantial opportunities for OSP, and thus even the inflow of capital it received from US economic and military assistance did nothing to forestall its descent into the grips of what has been dubbed an “anti-developmental state” (Bello et al. 2004). As Figures 7 and 8 show, South Korea, effectively utilizing its OSP windfall, quickly surpassed the Philippines in both manufactured output and exports. The East Asian developmental state, in short, is a very geographically-historically unique phenomenon, not replicated even throughout the region during the major period of its success.

## **Conclusion**

We have argued that the dynamic growth and industrial transformation of the South Korean economy—and especially its crucial construction firms—is attributable not only to the actions of the Korean developmental state but to the effects of a Cold War geo-political economy that made access to technological and engineering learning opportunities available to South Korean contractors on unusually favorable terms. In saying this we deny neither the very active role of the South Korean state in this process nor the successful efforts of South Korean firms to take advantage of the opportunities; rather, we emphasize crucial processes buttressing these efforts that are largely missed or downplayed in neo-Weberian accounts, especially the role of OSP and the induction of South Korean firms into the US MIC.

In doing this, we have tried to show that conceptually and methodologically it is useless to partition the economic performance of states like South Korea from geopolitics and

transnational class issues. Neo-Weberian analyses of the ways state policies guide the market are superior to neoliberal arguments in this regard, but they do not go far enough. Economic development in East and Southeast Asia has been shot through with the same kinds of class power and military violence that have accompanied capitalist industrial transformation elsewhere in the world over many centuries. A geo-political economic analysis of East Asian development that makes the enrolment of Asian states in the US MIC a centerpiece of the analysis—that is, that highlights the involvement of South Korean elites in the formation of a Pacific ruling class—provides one important corrective to this absence of war from the story of East Asian industrialization.

## Notes

1. Office of the Assistant Secretary of Defense, News Release, 17 January 1964, “DOD to Conduct Classified Briefings for Industry on its Long-Range Buying & Development Plans,” LBJ Library, White House Central Files, Papers of Lyndon Baines Johnson, Procurement-Disposal, Box 5, File PQ2, Purchasing – Contracting – Procuring, 11/22/63 – 2/3/64.
2. Berger to State, telegram, 6 December 1963, LBJ Library, National Security Files, Korea, Box 254, Memos, Vol. I, 11/63-6/64.
3. National Security Action Memorandum No. 298, Study of Possible Redeployment of US Division now Stationed in Korea, May 5, 1964, <http://www.lbjlib.utexas.edu/johnson/archives.hom/NSAMs/nsam298.asp>.
4. Office of the Assistant Secretary of Defense, International Security Affairs, “Military Assistance Reappraisal, FY 1967-1971, Volume I Report, Draft Report on Taiwan, Korea, Thailand, Philippines,” LBJ Library, National Security File, Agency File, Defense Department, Box 20.
5. Telegram from Berger to US Department of State, March 7, 1964, LBJ Library, National Security Files, Korea, Box 254, Cables, Vol. I, 11/63-6/64; Telegram from Rusk to US Embassy in Seoul, July 3, 1964, LBJ Library, National Security Files, Korea, Box 254, Cables, Vol. II, 7/64-8/65.
6. Memorandum of Conversation, January 14, 1965, LBJ Library, National Security Files, Korea, Box 254, Memos, Vol. II, 7/64-8/65.
7. Brown telegram to Department of State, May 1, 1965, LBJ Library, National Security Files, Korea, Box 254, Cables, Vol. II, 7/64-8/65.
8. See telegram from Brown to Department of State, July 10, 1965, LBJ Library, National Security Files, Korea, Box 254, Cables, Vol. II, 7/64-8/65.
9. FRUS 1961-1963, Vol. XXII, p. 587.
10. Telegram from Brown to Department of State, July 10, 1965, LBJ Library, National Security Files, Korea, Box 254, Cables, Vol. II, 7/64-8/65. Brown did, however, call

for suspension of MAP transfer requirements in exchange for South Korean troop commitments to Vietnam, and he also suggested both ongoing possibilities for South Korean military contracts and higher pay for South Korean troops serving in Vietnam.

11. Brown telegram to Department of State, August 14, 1965, LBJ Library, National Security Files, Korea, Box 254, Cables, Vol. II, 7/64-8/65.

12. FRUS, 1964-1968, Vol. XXIX, 126.

13. FRUS, 1964-1968, Vol. XXIX, 139-140.

14. Brown telegram to Department of State, January 19, 1966, LBJ Library, National Security Files, Korea, Box 255, Cables, Vol. III, 11/65-12/66.

15. FRUS, 1964-1968, Vo. XXIX, 159.

16. Author interview with Mr. Ki-Tae Kwan, Special Senior Advisor, Hyundai Engineering and Construction, former engineer for Hyundai, June 2012.

17. Author interview with Mr. Ki-Tae Kwan, Special Senior Advisor, Hyundai Engineering and Construction, June 2012.

18. Author interviews with Yong-Ky Eum, former CEO of Hyundai Lumber Industry (1991-1998), former CEO of Hyundai Corporation (1989-1991), former CEO of Hyundai Mipo Dockyard Co. (1988-89), former Vice President of Hyundai Heavy Industries (1983-1988), former accountant for Hyundai Construction (1966-), June 2010 and June 2011.

19. Author interview with Mr. Ki-Tae Kwan, Special Senior Advisor, Hyundai Engineering and Construction, June 2012.

20. Author interview with Mr. Ki-Tae Kwan, Special Senior Advisor, Hyundai Engineering and Construction, June 2012.

21. Author interview with Mr. Ki-Tae Kwan, Special Senior Advisor, Hyundai Engineering and Construction, June 2012.

22. Author interviews with Yong-Ky Eum, June 2010 and June 2011.

23. Author interview with General Chang Woo-Joo, current Chairman of Korean American Business Institute, former Head of the delegation of UNC Military armistice commission (1963), Assistant Deputy Minister of South Korean Department of Defense (1965), former CEO of Hyundai Construction and Hyundai Corporation (1975-1985), June 2011.

24. Memorandum for the Record: Final Conversation between President Johnson and President Marcos, September 15, 1966, LBJ Library, National Security Files, the Philippines, Box 280, Marcos Visit Papers 9/14-16/66.

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# **The Role of Developmental State in the Age of Global City Region and Agglomeration Economy**

*Asato Saito*

# The Role of Developmental State in the Age of Global City Region and Agglomeration Economy

*Asato Saito*

## Introduction

This paper discusses if Tokyo's policy responses to global change can be understood within the framework of an adapting Developmental State. These policies range from urban structure, transport infrastructure, to cultural development and tourism. Although some of them have a fairly narrow geographical focus on central Tokyo, they also have implications for the wider region. The processes of governance that lie behind the policy formation and implementation are analyzed below. Tokyo has its own particular system of governance and political dynamism. The policies are formulated and carried out through close cooperation between multiple agencies at different levels of government, within the historical legacy of a Developmental State<sup>1</sup>. By looking at this system closely, I would like to show how it actually works in practice.

Some argue that the Developmental State has been gradually receding in recent years (Grimes, 2001), and that the Ministry of Land, Infrastructure and Transport (MLIT) may be more willing to work with local government (Ohnishi, 2005). A number of legislations were passed which re-design the long-established intergovernmental relations, and make local government more independent from the center.

The analysis starts with a discussion of the policy shift that favors the centre-core of Tokyo as this is the most significant policy change in the last 15 years or so. The second part turns to the other important change during the period – namely, the gradual move towards regional policy co-operation. The implications of these major policy shifts for the inter-governmental power relationship are assessed in concluding the analysis.

## Strengthening the Centre-Core

In response to the new challenges of globalization and inter-urban competition, the basic spatial policy direction that the TMG and national government have taken so far has

focused on strengthening the center-core area of Tokyo. This is the area of the CBD and the wards immediately surrounding it, which contains the HQs of TNCs, financial institutions, major cultural institutions, media, and upper-middle class housing. Policies have tried to encourage more of these functions, eliminate obstacles, and purify the area for globally oriented business and high-class consumption. It is regarded as a key location for creating wealth in the globalized economy, and thus is given privileged treatment. This has implications for how the wider region is planned, such as through regional infrastructure projects, and inter-governmental relations across the region.

The remainder of this section will spell out the individual policies which contribute to this centre-core development. First, the national framework of land use planning is discussed. Under the ideology of ‘even development’, the post-war national land use system tried to encourage the development of peripheral regions at the expense of big cities through the Comprehensive National Development Plan. The system, however, experienced a major turning point in the late 1990s in the face of the economic downturn. Secondly, around the turn of the century, Prime Minister Koizumi, who led the neoliberal economic reforms, applied a laissez-faire policy to urban property development. He enforced a series of relaxations to the planning regulations for property development in the CBD and centre-core. Within this broad framework, a series of policies were pursued: large scale infrastructure projects such as airport improvement and their access routes, environmental improvements in the quality of life, promoting international tourism and cultural development, and finally the Olympic bid for 2016 (although this failed).

### *National Land Use Policy and the Overconcentration on Tokyo*

Since the post-war economic growth, one of the major challenges that Tokyo has faced has been how to manage the seemingly uncontrollable sprawl and development pressure. Because of its enormous political and economic gravity, strong centripetal forces were in operation (Sorensen, 2002; Cybriwsky, 1998). Business functions and employment continued to congregate in the central part of Tokyo. Commuters were pushed further away to the outer suburbs. Though there were minor corrections from time to time, Tokyo’s main story between the 1950s and 1980s was uninterrupted economic growth and urban expansion.

Tokyo’s economic superiority and future growth prospect was taken for granted. How to maintain quality of life such as affordable housing, open spaces, and clean environment was a major challenge for the authority (Ishida, 1992). Particularly towards the end of 1980s, land prices increased dramatically, and residential neighborhoods in central Tokyo were threatened by office development (Igarashi and Ogawa, 1993).



The overconcentration of Tokyo was recognized not just as a local and regional issue, but a national one, because the national government had a strong objective to balance economic development throughout Japan. Each locality has a relative strength in a particular industry such as agriculture, manufacturing and commerce, as a result of particular local histories and topographical conditions. Industrialization, however, created an uneven geography in terms of production and level of income, spearheaded by Tokyo and its surrounding region. The Japanese government tried to minimize the regional and local imbalance because it was related to the issues of legitimacy of the Developmental State and its key agencies of national bureaucrats and the LDP (Saito, 2011). The main policy tool was the Comprehensive National Development Plan (CNDP), which was a national land use plan authorized by the Comprehensive National Development Plan Act of 1951, and which covered all of Japan. The plan represented the spatial dimension of economic growth and welfare provision.

The aim of the plan was to use land and natural resources effectively and comprehensively, and so, it included plans for industrial location, transportation and infrastructure development to achieve maximum effective land use. The plan also aimed at creating a balanced regional structure, and one way was to control further expansion and over-concentration of the metropolis, which was suffering from over-crowding and negative externality. The plan was also to strike a balance between the economic disparities of different regions (Kawakami, 2008; Yamazaki, 1998). Policy priority was given, first, to developing industrial infrastructure - e.g. land, water, transport and telecommunications and, secondly, to housing, education and tourist facilities. Core projects, such as the New Industrial City and Technopolis, aimed at creating new growth poles around the areas that suffered from a relative lack of industrial facilities.

After the collapse of the 'bubble' economy and the resultant recession in the 1990s, the policy direction was substantially altered. In 2005, the National Land Development Act was replaced by the National Land Sustainability Act, and the existing planning system was abolished. The new legislation signaled a departure from the old framework by omitting the very word 'development' from its purpose (Ohnishi, 2005). Instead, it emphasized environmental quality and preservation. The new plan based on the Act is called the National Land Sustainability Plan, and it developed governmental devolution by proposing wide-area regional plans<sup>2</sup>.

Tokyo was long regarded, within the CNDP framework, as being too big, creating national social/economic imbalance, and thus, the need for decentralization. There was even a plan to relocate Tokyo's national political and administrative functions to another region. Since the 1960s, it was repeatedly suggested that the national capital should be moved from Tokyo (Toki, 2003). It was the main remedy against over concentration and the negative externalities of Tokyo, such as congestion, pollution, and extremely high house prices.

Since the late 1990s, however, amid a decade-long sluggish economic performance and continuing globalization, Tokyo's competitive advantage has been increasingly called into

question. There was a consensus that Tokyo's position as the prime global city in Asia was being challenged by other cities, such as Shanghai and Singapore (TMG, 2000; Saito and Thornley, 2003). Current strategic planning thinking is oriented to the new emphasis on city competition. The prevailing view favors urban policies to support Tokyo in this climate by developing the necessary facilities, generating an attractive image and reinforcing the efficiencies of agglomeration. Compared to the urban policy under the influence of Developmental State, which is rather closed and self-contained, a more open approach is taken in which the attraction of international business and tourism are seen as key elements.

### *The Shift to Center-core Development*

The policy for strengthening Tokyo's center-core was further aided by national financial policy. One of the underlining issues in the economy after its collapse in the 1990s was the depressed property market and non-performing loans (Katz, 2002). The Banking sector was crippled and money flow stagnated. It was not only financial institutions but others in the corporate sector that could not recover from the investments they made in the 1980s in Tokyo's property market. The government was well aware of the need to stimulate the property market. Because of the huge public sector debt, they could not expand the familiar method of public work investment. Instead, they found a new rationale in globalization, city competition, and the benefits of an agglomeration economy for invigorating the market.

It was not only the national government who were keen to upgrade Tokyo. The Tokyo Metropolitan Government (TMG), under Governor Ishihara, put forward aggressive measures to promote Tokyo at a global level. The TMG also felt threatened by the rapid progress of Asian rivals, which has led the TMG's urban policies towards creating a globally competitive Tokyo. First, it took a positive attitude to agglomeration, making a u-turn from the previous planning policy of creating several sub-centers in order to avoid over concentration on the CBD (Taira, 2002). Instead, it encouraged the accumulation in central Tokyo of global command-and-control functions in business and finance (Iwami, 2007). The centre-core area was singled out as a strategic location in the Tokyo Megalopolis Concept, published in 2001 (TMG, 2001a). The concept proposed to upgrade not only the office and working environment, but also housing and leisure functions, so that global business elite could work, play and relax in close proximity and convenience.

Secondly, the Waterfront sub-centre, a loss-making redevelopment project in the 1990s (Saito, 2003) was revived and invigorated. It was first conceived in the late 1980s by the TMG as a teleport, but the idea was soon hijacked by the developers in response to the shortage of office space. The fall in property prices and the stagnation of economy meant that the project faced imminent bankruptcy in the 1990s. In previous plans the Waterfront was a sub-centre focusing on international business but having abolished its

its sub-centre policy the TMG redefined the area for leisure and retail development. It has an attractive location around the Waterfront with an artificial beach, and houses such facilities as an international exhibition center, huge shopping malls, a TV station, and various kinds of restaurants and bars. It was transformed into an 'urban leisure center' and was an instant success in boosting consumption.

### *Cultural Development and Tourism*

Some say Tokyo's global city policy is oriented to economic issues and neglects a cultural dimension (Friedmann, 1995). The number of tourists visiting Tokyo is also comparatively small<sup>3</sup>. Recently, however, the Japanese government and the TMG have recognized the growing importance of culture for economic development and tourism. They think that the Tokyo region has good potential for developing a cultural dimension. First, Tokyo has a rich cultural heritage particularly in the central part of the city. Many traditional arts such as Kabuki, Sumo, and Ukiyoe (floating world) originated and developed within the vibrant civic culture which flourished in Edo in the 1700s. Secondly, until recently Tokyo has suffered from an absence of a clear strategy and direction for cultural development. Contemporary Tokyo was often described as a modern, clean and efficient city, but a rather boring one without a distinctive cultural character. The downtown is occupied by standardized office blocks and the suburban town centers look exactly same. It has even been criticized as 'faceless' (TMG., 2006, p. 89). Thirdly, Tokyo has emerged as a centre of contemporary pop culture. This grew as an alternative to the established Western art forms, and gained worldwide popularity. Japanese cultural products in fashion, music, computer game, animation, etc. are followed by many younger people worldwide and in Asia particularly. They clearly have a uniquely Japanese character and their popularity has coined the term 'Japan Cool' (Ingulsrud and Allen, 2010).

The national government and the TMG have started to develop strategic thinking for mobilizing culture for economic development. They have placed tourism and 'visitor industry' in leisure and entertainment as a leading sector in the 21st century, closely tied to cultural industries. The national government established the Japan Tourism Agency in 2008 to devise the national strategy and coordinate projects. The TMG is also keen to promote Tokyo for international tourism (TMG, 2001b) and devised the 'Yokoso (Welcome) Tokyo' campaign. The TMG also sent missions to USA and Europe to promote the city for tourism. This promotion mobilizes both traditional and contemporary culture. For example, the TMG spent \$7,000 to help young and up-and-coming artists in 2007. The money was spent funding international workshops and exchange programs (TMG 2008).

The new emphasis on cultural policy has spatial implications. Akihabara, once known for the shopping area of household electric appliances, has been transformed to digital shops for computer games and new media. Moreover, there is a kind of industrial district, an agglomeration of SMEs for computer software and the digital sector, around Shinjuku station and alongside the Chuo Line (Fujita, 2003). A small but increasing number of young

artists have moved to the Shitamachi District, in the east or north-east part of Tokyo, to take advantage of low rent and space. They have converted old houses into art studios.

In Tokyo, cultural promotion policy is not only about the usual cultural products and art forms; it also includes the natural environment and urban landscape itself. For instance Tokyo used to be known as a city of canals because boats were the main mode of transport. Once they were polluted by industrial waste but they are now promoted as cultural heritage. River buses carry tourists to Asakusa district and cruise the Shitamachi (down town), the centre of traditional culture in Tokyo (TMG, 2001c). The riverside is also being developed for cafes and green spaces. Roppongi has been a popular dining spot for years, but after the construction of the Roppongi Hills complex and the new national art museum, it has been transformed into a trendy shopping/leisure/entertainment district.

The TMG thinks that all these resources are potentially very useful, but not fully utilized. They can be best coordinated by a big event, such as the Tokyo Film Festivals and the Tokyo Marathon. Tokyo is often described as an 'ugly' city from an esthetic viewpoint. Critics point to a lack of style in architecture, haphazard development, and motorways cutting across the skyline (Shibata, 2008). Tokyo has 400 years of history, and used to be known for its beauty, but it has been destroyed by earthquake, war, and rapid post-war reconstruction. The TMG is trying to recover this past glory by urban design and beautification (TMG, 2006). The projects include the replacement of overhead electric/telephone wire by underground cable, making the riverside accessible to pedestrians, regulating billboards in terms of color and lighting, and restoring historical landmarks such as the Nihonbashi bridge. Most of these projects are located in the urban-core area. The TMG believes that landscaping the centre-core area should appeal to visitors and tourists as well as residents, and it is an important tool for increasing its attractiveness.

### *Olympic Bid for 2016*

Tokyo made a bid for 2016 Olympic Games, but failed to win the nomination. However, it influenced the ongoing urban policy a great deal. In fact, the Olympic Games bid was a pet project for Ishihara intended to advance his urban policy and various projects (Iwami, 2006; Ozaki, 2007). It was appreciated that big cultural and sports event can help urban policy and projects in many ways, such as improving city image, attracting investment and visitors, installing physical infrastructures, and establishing clear urban identity and solidarity among citizens (Roch, 2000). In the case of Tokyo, the Olympics aimed at uplifting Tokyo after its decade-long slow growth and establishing its position on the international stage once again. To this end, the 10 year plan published in 2006 (TMG, 2006) expected the Olympics to accomplish the goals mentioned above. One mechanism was to create a highly efficient regional infrastructure including three ring roads and modern airports. According to the proposal, the ring roads would make a dramatic difference to the congestion and pollution of Tokyo by improving logistics,



and achieving a higher quality of life. The Olympics would also have been a showcase for an environmental friendly city using advanced technology, and show the world the commitment of Japan to combating global warming. It would have accelerated the internationalization of Haneda Airport which would have shared the gateway function with Narita Airport.

It would also have revitalized the struggling Waterfront Sub-centre project in the Bay Area, which because of the recession and the dramatic fall in property prices, is continuing to be a drain on the TMG budget. The public corporations which develop, manage, and run the project were bankrupted in 2006; it is estimated that it will take more than 50 years to pay back the debt. According to the plan, the main stadium, international media centre, and Olympic village would have been constructed within the Waterfront area by using the land that TMG owned. Other facilities were also planned nearby and new access roads and bridges would have been constructed. In this way, the Waterfront area would have been revived and the remaining vacant land could have been sold at a high premium (Iwami, 2006).

It is clear that the Olympics were intended to be a major ‘catalyst’ to change Tokyo. Tokyo’s global city strategy and projects discussed in this section cut across many policy fields. The Olympic bid was intended to create a momentum to coordinate them, including infrastructure, tourism, property development, and environment, into one clear goal of urban promotion. As illustrated in Figure 1, major sporting venues would have been constructed within 10km radius of central Tokyo in the name of ‘The most compact Olympic Games ever’ (TMG, 2006, p2). Officially it intended to reduce the traffic volume and achieve energy efficiency, but, in reality, it was to justify the investment priority in the urban core.

Figure 1: Competition venues and facilities for the proposed Olympic



Source: TMG 2006, 3



It usually takes years to build regional infrastructure because it involves complicated negotiations with national government and neighboring municipalities and prefectures. However, the Olympic bid was a national project and also an international commitment if successful. It would bring the necessary national resources and set the time frame for implementation. This would have worked as 'leverage' to the global urban promotion strategy. Although Tokyo failed to win the nomination in October 2009, Ishihara has said that he will continue to press for the projects, such as the three ring roads.

From the analysis of the various policy responses, it is evident that there have been three clear and sustained policy directions. First, both at national and metropolitan scale, the previous policy of achieving a balance in the urban structure has been superseded by the new logic of agglomeration and efficiency. Tokyo's potential has been re-evaluated in the light of the post-industrial and knowledge-based economy. As a result, Tokyo has been re-tuned from the objective of dispersal and containment, to developing as a centre of innovation, creation and representative of Japan on the world stage. Secondly, the geographical focus of policy has been directed to the promotion of Tokyo, particularly to its newly constituted urban core area. This focus has been consistent throughout various policy fields from infrastructure, tourism, and environment. Thirdly, the range of policies in the promotional strategy has been quite limited, and in tune with market-oriented neo-liberal ideologies. On one hand, a lot of attention has been paid to increase the competitiveness of Tokyo by strengthening its comparative advantage through the advanced service sector, global finance, culture and tourism, benefitting the urban middle-class. On the other hand, various social problems, ranging from unemployment, polarization, and 'cold spots', were left untouched. Policies for the environment and quality of life, which used to be discussed as part of the general welfare regime, have been increasingly regarded as an effective tool for urban promotion and competitiveness, rather than a matter of social policy.

### The Regional Policy Response

These urban promotional policies are generally focused on the centre-core area of Tokyo. However, the centre-core is part of an integrated city-region and cannot stand alone. Various functions of the centre-core are supported by the wider region through, for instance, a commuting, and production network. Thus, it is inevitable that the policy changes have some regional implications. Thus I now turn to explore these aspects through the examination of key areas of public intervention: regional planning policy, transport projects, and airport development.

#### *Regional Planning Policy*

Between the 1960s and 1990s, regional plans were prepared by the national government through consultation with local government within the framework of the Comprehensive

National Development Plan (CNDP) discussed above. In the case of the Tokyo Metropolitan Region (TMR), these regional plans took the form of the Capital Region<sup>4</sup> Development Plans and they applied the same principle of 'balanced development'. Instead of one-point convergence on central Tokyo, they advocated the dispersal of employment across different cities. A number of Business Core Cities, Science Parks, and Research and Development (R&D) centers were designated around Tokyo, such as Tsukuba Science City and Saitama City, which were designed to have self-sufficient economies so that people did not have to rely on jobs and services in central Tokyo. In fact, over the last 25 years, such centers have developed to such a degree that recent survey shows increasing commuting between them (MLIT, 2006).

The National Land Sustainability Act enacted in 2005 required the preparation of a wider-area regional plan for each region. For the region around Tokyo, the Capital Region Wide-area Plan was published in August 2009. It listed various policies but was written in a rather general manner without showing any priorities. It does not have any map to show locations, nor any numbers and figures. At the same time, the investment strategy and the budget for public infrastructure in the region is to be separately prepared by national government. Each of them should be complementary, but since the latter has yet to be published, the outcome remains to be seen.

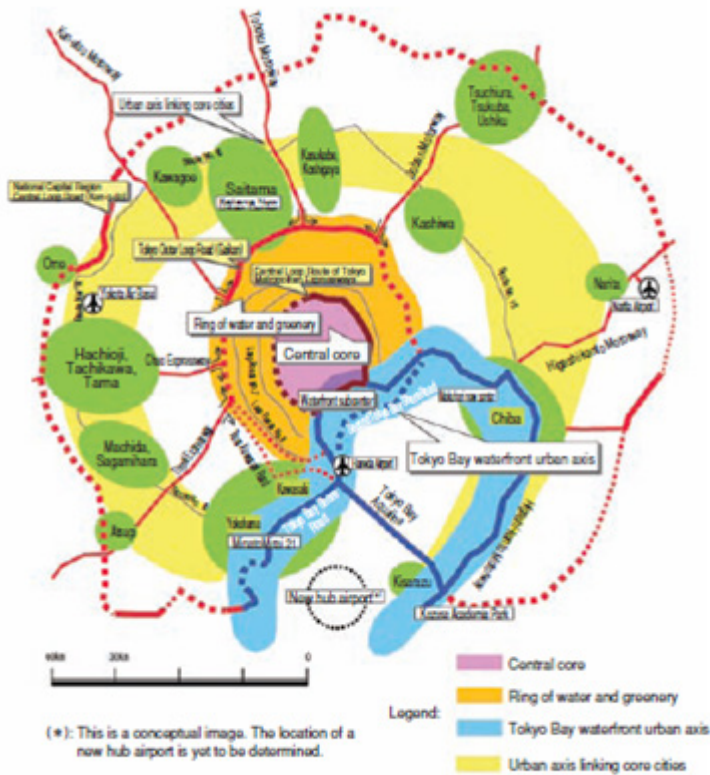
More substantial changes in regional planning were initiated by the TMG. The Circular Megalopolis Concept was proposed by Governor Ishihara of the TMG soon after his election in 1999 as an alternative to the national government idea of relocating the capital functions<sup>5</sup> (Iwami, 2006; Taira, 2002). The Governor's plan aims to show that there is a way of dealing with the congestion problems of Tokyo other than by complete relocation. Instead, he suggested that various capital functions could be shared within the region by dispersing them to multiple locations. It was unusual and unprecedented for the TMG to propose such a plan because it included the area outside its boundary, governed by the other three prefectures.

The concept proposed in the Circular Megalopolis does not seem to be a radical departure from the previous regional plan made by the national government. As Figure 2 shows, it also encourages 'core' cities outside the 23 wards. However, the idea behind this was completely transformed. First, the concept aims to mobilize the regional structure to support the CBD and the central area of the TMG. Unlike the previous strategy which tried to achieve a more equitable urban development, it implies a more hierarchical idea with the CBD at the top, followed by the surrounding areas in the 23 wards, and then the rest of city-region. It embodies the logic of globalization and neo-liberalism where the 'winner-gets-all' mentality dominates and competition overrides any social concerns.

The hierarchical pattern is illustrated by Saitama city which has been designated as one of the regional core-cities. It has increased its office space recently but this is mainly for back-office functions engaging in routine transactions and domestic corporate management. Many

TNCs have shifted their domestic operations centre from the CBD to such cities, and use their central space for global operations or creative functions such as international marketing. In other words, the CBD and the centre-core have been purified for high value-added activities.

**Figure 2: Circular Megalopolis Structure**



**Circular Megalopolis Structure**

Source: TMG 2001, 25-26

Secondly, the demographic situation has changed. Japan has already entered into a phase of declining population, and in the long run, Tokyo will also have to face shrinkage. It is completely different from the growth period between the 1960s and 1980s when a positive-sum game can be played among different cities and areas. Against this background of imminent shrinkage, the idea behind the plan is to develop strict priorities in strategic thinking. As a result, investment decisions have to be based on the principal of ‘select and concentrate’.

Thirdly, the concept has been developed in a different political and ideological environment. The previous strategy was formulated within the framework of a Keynesian welfare regime in which the government was obligated by the constitution to provide a certain level of universal welfare no matter where people lived (Matsushita, 1995). In fact, government policy was geared towards minimizing the regional differences and achieving a balance. The new strategy tries to maximize the potential of central Tokyo even at the expense of other areas.

There are a few key transport infrastructures which serve the wider region and have regional implications. One of the major weaknesses of Tokyo is its global connectivity. Narita airport, the main international airport, is located on the edge of the region 66 km away from central Tokyo. The airport is served by train and highway but it takes more than one hour to reach the city centre of Tokyo. It has a smaller capacity than other Asian 'Hub' airports in Seoul, Shanghai, Hong Kong and Singapore. Meanwhile Haneda airport is located in Tokyo Bay and only 30 min from central Tokyo. It used to be the international airport but since Narita was open in 1978 it has operated mainly for domestic flights. Thus various measures have been taken to improve the two airports. In Narita, a new high-speed rail link is due to open in 2010 which will connect the airport with central Tokyo in 30 min. International flights were reintroduced to Haneda in 2002, and another runway was added in 2010, which further improved its international connectivity with Asian cities as well as Europe and North America<sup>6</sup>.

Another major infrastructure project is the construction of three ring roads. The inner road is within the TMG boundary, but the outer two cut across other prefectures and thus they are regional projects (see Figure 2). The project aims at reducing the volume of traffic, particularly heavy vehicles and freight transport, running through central Tokyo. Radial roads are well established in Tokyo, but not a circular road. As many manufacturing plants are located on the edge of region, it is necessary to improve transport efficiency. Another aim is to reduce the air pollution and road congestion in the central part of Tokyo. The ring road project is widely regarded as an attempt to create an integrated global-city region that serves the centre-core and enhances competitiveness by easing the congestion and pollution in central Tokyo (Iwami, 2007).

### *The Move to New Regional Co-operation*

The changes in approach to regional planning policy by the national government and the TMG have created a 'momentum' shaking the established political order and reorganizing regional interests for new purposes. Against the background of increasing demand for 'decentralization' in recent years, regional political leaders also seem to have become more confident in arguing their local and regional interest against national government. As a unitary state, Japan does not have a regional level of government, and the Tokyo Metropolitan Region (TMR) only exists as a statistical unit. However, there are informal mechanisms through which regional matters can be discussed. The Capital Region Summit (CRS), which now consists of the heads of 5 cities and 4 prefectures, discuss various issues that the region faces, exchange ideas, and learn from each other, but do not have legal status and decision making power. If they arrive at a common understanding and reach some consensus on certain issues, for instance measures to tackle air pollution caused by diesel emission, they implement a common policy in their respective administrations. Another major function of the Summit is to lobby national government. A common agenda, such as on regional



infrastructure, is put forward to the relevant national ministries for consideration. Another discussion forum, the Capital Region Forum, was created more recently in 2006. Membership of this Forum includes the members of the Capital Region Summit plus the leaders in the local business community, such as the head of chambers of commerce in Tokyo, Yokohama, Saitama, Kawasaki, and Chiba, and expert advisors in various policy fields, such as urban planning and environment. The Forum meets once a year to discuss regional issues. It is basically an extension of the Capital Region Summit, but can benefit from the realism of the private sector representatives. The issues covered include tourism development, environmental sustainability, and regional infrastructure. Again, the Forum does not have real power, but its creation suggests increased attention to regional issues and the need for policy coordination. CRS has been held twice a year since the 1979 to discuss matters beyond the borders of individual prefectures. Because of their lack of statutory status, the Summits were often regarded as mere talking shops, and an organization to lobby national government. Nevertheless, together with the Capital Region Forum which started in 2006, they are the only platform where regional political leaders can get together. It is often said that achieving regional cooperation is difficult because of fragmentation, rivalry, and competition among local governments. In recent years, however, there is some indication that a kind of regional cooperation, albeit in a loose form, is emerging around a common understanding of the importance of the region as a strategic site for global competition.

Regional level plans are prepared by national government after consultation with local government, but Ishihara did not consult with anyone when he proposed the Circular Megalopolis Concept. This naturally prompted some concern and suspicion among the neighboring prefectures, about whether he was trying to control the regional agenda and upgrade himself as the regional leader<sup>7</sup> The concept was presented as the “Tokyo Megalopolis Concept” to a CRS meeting but met with a cool reception. After some discussion, the word “Tokyo” was dropped because it implied the dominance of Tokyo in the region. Instead the “Capital Region Megalopolis Concept” was published by TMG in 2001<sup>8</sup> (Taira, 2002). The other members of CRS were in an ambivalent position because though they did not like Ishihara’s style of politics it was undeniable that they would benefit from the growth of Tokyo. In the end, they took a pragmatic stance and accepted his idea of promoting the centre-core of Tokyo for the sake of the whole region (CRS, 2002).

On October 12, 2009 Seiji Maehara, the Minister of Land Infrastructure and Transport, made an announcement that Haneda Airport would be an international ‘hub’ airport<sup>9</sup> He said that Incheon in Korea had become a de-facto hub airport for Japanese passengers because it connected with so many Japanese regional cities and had international links as well. Thus the announcement signaled a major change in aviation policy. There was previously quite a strict division of labor between Haneda and Narita Airport for domestic and international flight; passengers had to be transported between the two for connecting flights. According to Asahi Shinbun Newspaper, Maehara’s announcement



angered Governor Morita of Chiba Prefecture who felt that Narita's position as Japan's gateway airport would be threatened<sup>10</sup>

He had an emergency meeting with the minister the following day, and they eventually settled the matter on the grounds that flights would not be shifted from Narita to Haneda. The incidence revealed that national government still maintains a crucial role in deciding such policy. At the same time, it is true that the policy initiated by the TMG and Ishihara eventually influenced national government to change its approach.

According to the minutes of the Capital Region Forum, the improvement of regional infrastructure, such as the expansion of airport and improvement of access, is widely supported among regional leaders (CRF, 2006). They seem to share a common concern that something has to be done to improve the competitiveness of Tokyo for the benefit of the whole of Japan in a globalized economy. There is a popularly held perception that it is difficult to achieve a consensus among regional leaders because they are competing with each other. Though this may exist, they seem to be well aware of the advantage of uniting as one voice. After the regional conference in November 2009, they published some reports and asked national government for more investment for regional infrastructure including the ring roads (CRS, 2009). The leaders have found that there is benefit in a united front. For instance, at the opening speech of CRF in November 2007, Ms Doumoto, then Governor of Chiba Prefecture, remarked that "We are not happy with the level of infrastructure provision in the region. No matter how many times we lobby individually to the national government, however, the progress is very slow. I think CRF is a platform that can form our collective will and move the national government forward."

Regional leaders are also aware that they need to handle the matter carefully for it to succeed politically. Forming a united front and insisting on Tokyo's regional interest does not necessary win wider support from the national government and other regions; it may even be counter-productive because the move could be seen as simply protecting their own status. After all, although it is the most developed and most wealthy region in Japan, three-quarters of the Japanese population live outside the Tokyo region. Nevertheless, regional officials often employ the rhetoric of 'national interest' to serve their own ends and insist that the capital region is the one and only global city-region which can lead Japan in a globalized economy.

## **Conclusion**

The whole system of governance in the Tokyo city region has been challenged by globalization, and the role of state has been under review as officials struggle to respond with effective policies. Efforts to mediate the new challenges faced by the GCR involve two key areas of response: regional policy co-ordination, and changing inter-governmental relations.

There is now wide-spread recognition among both national and local government officials, and business leaders, that Japan is part of the globalised world, and that cities and regions

have become increasingly important units for national competitiveness. The global city or global city-region is highlighted as an economic motor to drive the national economy. In particular, the agglomeration of expert knowledge in finance and advanced-producer services is seen as a key to winning inter-city competition. As a result, the government has been concerned about the stagnation of Tokyo in the late 1990s, and has turned to more aggressive promotional policies.

However, the scope of this promotional strategy is quite limited in terms of geographical scale and range of policy measures. It mainly focuses on the CBD and centre-core area of Tokyo, a mere 10km radius, and targets globally oriented service industries and high-class consumption. Other areas of the city-region have been included in the promotional strategy, but they are mainly cast in a supporting role.

Regional development policies have been re-organized to enhance the advantage of the CBD and the centre-core of Tokyo. Regional transport infrastructure, such as the three ring roads, is planned in such a way as to maximize the efficiency and benefit of central Tokyo. Haneda Airport has re-emerged as an international gateway, but it has broken the long established balance between Haneda and Narita, and upset the municipal government around Narita where the local economy depends on the airport. The concern for maintaining balance and equity between different localities within the region is increasingly superseded by the desire for global competitiveness. The new nationally-driven wide-area regional plan still talks about the distribution of different social and economic functions within the region and seeks to coordinate them. In reality, however, in a global economy where incomes and job structures are polarized, it effectively brings a more hierarchical regional structure. The regional development priority is now firmly placed on upgrading the central part of Tokyo in preparation for global competition.

So how far is GCR government becoming regionalized? National government has shown that it appreciates the importance of city-regions and is struggling to find a way of developing the governmental structure to match this. Meanwhile, though there is no formal government at the regional scale, regional political leaders have noticed that they have common interests, and have started to build a loose consensus over a policy direction to realize them. They have become concerned in recent years that the region is losing its competitive edge and lagging behind Asian counterparts. Thus they see it as common sense to do something to make the region a growth centre for the Japanese economy. This kind of political pragmatism is supporting a common agenda that is evolving to recover regional competitiveness. These regional structures are informal, however, and it is inevitable that their policy capacity is limited. In our analysis the most promising movement for increasing regional governance capacity might come from the Capital Region Summit and the Capital Region Forum. Though there are differences between members, they are united in thinking that Tokyo should be promoted on the national and global stage. They also agree that competitiveness is achieved not only from policies relating to economic development, but also from other policies such as on

environment, culture, and tourism and that these need to be mobilized into one package. It is still not clear to what extent they can influence the new Capital Region Wide-area Plan, but it is difficult to ignore their voice once it is united.

How have these moves to regional awareness, and the greater acceptance of the need to respond to the global economy, affected inter-governmental relations? Until the 1980s the national scale was privileged in the strategy of capital accumulation and state regulation for the whole nation under the Developmental State. This approach was based on the belief that national economic growth would be achieved most effectively not by unrestricted market competition, but by the coordinated actions of national government (Johnson, 1995; Murakami, 1992). The spatial dimension of such coordination was found in the regional planning policy where the development priority, location of infrastructure projects, and the allocation of the budget were centrally organized. The ideology of even development was mobilized to maintain regional balance, and it effectively sealed the privileged status of national government officials because they were seen as impartial guardians of the public interest. As a result, local initiatives were underdeveloped, and local government officials tended to seek help from the national government, rather than develop and mobilize local resources (Honma, 1998; Igarashi and Ogawa, 1993).

From the 1990s, however, this national coordinating function began to lose its coherence. Urban and regional policy was decentralized from the national scale, and individual cities and regions were expected to manage more by themselves (Itoh, 1998). The national government has been re-scaling its own territorial development strategy from the national level to the urban and region levels. The Tokyo region clearly benefitted from this move and also from the increased emphasis on supporting winners in the global economic competition. If the global economy continues to privilege the agglomeration economy in finance and producer service, the position of political leaders in Tokyo, particularly the governor of TMG gains strength no matter who is in office.

These changes raise the questions of whether the balance of power has shifted between the TMG and national government and whether the tentative moves to regionalization have altered the relationship. There used to be clear leadership from national government through the framework of the CNDP and regional planning, but this faded after the decentralization movement of the 1990s. In reading the records of the more recent regional conferences, there seems to be no dominant figure in their discussions. In terms of agenda setting, however, the TMG seems to be in the driving seat. Ishihara was first to claim that revitalizing the CBD and centre-core of Tokyo would be vital for Japan's future. It was Ishihara that identified the common regional agenda, such as the reintroduction of international flights at Haneda, and installing the three ring roads. After initial suspicion, his agenda has now become the regional agenda. Though he is an experienced politician who knows how national government works, it is doubtful that he gained leadership purely on the merits of his personality. His right-wing and ultra nationalistic view is well known and he has many political enemies.

He was rather smart in seizing the economic and political opportunity to promote Tokyo within the context of globalization and decentralization. It is obvious however, that the TMG cannot act alone, and the policy response of the city-region, in terms of an urban promotional strategy, is a joint project between national government, the TMG and other prefectures and designated cities. One might say that the governance of Tokyo has shifted from a position in which there was clear domination by the nation state within the Developmental State framework, to one of a political game involving many actors. However there are two key players: the nation state still draws on the legacy of its historical domination while the Governor of the TMG is able to draw on the importance of Tokyo in the conditions of globalization. This sets the scene for interesting political debates to come.

## Notes

1. I have discussed the nature of Japanese developmental state in elsewhere extensively (Saito, 2003, 2011), so wouldn't repeat it here, but my main argument is that the characteristics of developmental state lies in the institutional relations.
2. The regions are divided into Hokkaido, Tohoku, Kanto, Chubu, Hokuriku, Kinki, Chugoku, Shikoku, and Kyushu.
3. The number of visitors to Tokyo is estimated around 4.7 million in 2011, which is nearly half of Seoul.
4. National Capital Region is bigger than TMR, and includes Tochigi, Gunma, and Ibaragi prefectures located in the north of TMR.
5. The idea was first proposed in 1990 as a remedy against over concentration of Tokyo, and enacted in 1992. However, after the bubble collapse, the plan was suspended.
6. Reported on The Asahi Shimbun, 2009/12/8.
7. There was also a strong suspicion that he tried to use the region as a political platform to challenge the national political leadership.
8. This is now commonly called "Circular Megalopolis Concept".
9. Hub airport means that passengers can be transferred between international and domestic flight at the same airport.
10. The Asahi Shimbun, 2009/10/14.
11. His right-wing and ultra nationalistic view is well known and he has many political enemies.

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# **Developmental State with Gangnam Style: Land Dispossession and Capital Accumulation in a Late Industrialisation Context**

*Jung Won Sonn, Hyun Bang Shin*

# Developmental State with Gangnam Style: Land Dispossession and Capital Accumulation in a Late Industrialisation Context

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## Introduction

The rapid economic growth in East Asian economies was accompanied by rapid urbanisation. Explosive growth of population created huge demand for housing, which was met by dense provision of high-rise flats (Shin 2011). High-rise flats (or apartments as they are more widely known in Korea) have led this mode of urban accumulation in particular. According to the 2010 Census, in Seoul, the share of apartment units in all dwellings reached 59%, and the share of households living in apartment unit turned out to be about 40% of all municipal households (Statistics Korea 2011). These were significantly higher than the figures from the 1985 Census, which were 26% and 14% respectively (National Bureau of Statistics, Economic Planning Board 1987). Apartment units accounted for nearly half of the newly constructed dwellings in the entire nation as early as in 1982, and about 84% in 1994 (Ministry of Construction and Transportation 1995: 290-291). Seoul was indeed leading this trend. In particular, the Gangnam area in Seoul, literally translated as the south of the Han River, saw the concentration of apartments and subsequently became the loci of wealth and power accumulated in times of Korea's industrialisation and economic development (see Figure 1 below).

**Figure 1: The share of households living in apartment units in 1990**



In this paper, we argue that the contemporary urban (residential) landscape in Seoul dominated by high-density apartment construction is the making of the Korean developmental state, which planned and orchestrated the redirection of available resources to laying the foundation of the commercial apartment sector. The great majority of apartment units that exist nowadays were supplied after the early 1980s by means of new construction or redevelopment of existing estates, but it was the government measures in the 1970s that paved the way to this domination of high-rise apartments.

Moreover, this paper expounds that the actions of the Korean state in the 1970s were to address multiple purposes. Firstly, the Korean developmental state in the 1960s and 1970s, headed by the then President Park Chung Hee who secured his power through a military coup in 1961, aimed at gaining its legitimacy by means of embarking on nationwide modernisation and industrialisation. Secondly, the Korean developmental state used various financial and urban planning incentives to intervene heavily in re-writing the landscape of Seoul particularly in its southern districts south of the Han River, then known as Yeongdong and subsequently renamed Gangnam. Thirdly, the state intervention was carried out through selective dispossession to ensure capital accumulation through investments in fixed assets including housing benefited the emerging middle class and in particular, the state's principal political ally, that is large businesses conglomerates known as Chaebol.

The research on which this paper is based made use of several research methods. We first conducted extensive archival research. During the visits to major on- and off-line libraries and data repositories, we located historic publications by major players in housing development in the 1970s. These included historical archives produced by The Bank of Korea, the Korea National Housing Corporation and Hyundai Engineering and Construction Co. (Korea's largest builder for decades) as well as the Housing and Commercial Bank among others. We also acquired key professionals' published memoirs and used newspaper articles from the 1970s. These were further complemented by in-depth interviews with two former government officials who played significant roles in housing development in Seoul during the 1970s.<sup>1</sup> Finally, we have resorted to a series of academic publications by local researchers whose works have been reinterpreted in accordance with the theoretical angle that we introduced in this paper.

The rest of this paper consists of four sections. It firstly reviews the literature on accumulation by dispossession and its relevance for the developmental state, situating these perspectives as the key analytical framework for this paper's arguments. Secondly we contextualise the urban conditions and housing production in Seoul to discuss the ways



in which key regulatory and socio-economic conditions of accumulation were created before large-scale apartment estates began to be provided by private builders. Thirdly, we discuss various means of dispossession, which were implemented by the state in the 1970s. These include the transfer of public assets to private hands, the designation of appointed firms to provide them with preferential treatments regarding housing construction, and the growth of individual capital through merger and acquisition in order to produce the financial and technical capacity to carry out large-scale estate construction. The final section provides concluding discussions.

## **Literature Review on Primitive Accumulation of Capital**

The role of the state in the formation of industrial capital has long been recognized from Steuart (1767) and Gerschenkron (1962) to Wade (1990) and Chang (2002), among others. These scholars looked at diverse aspects of state intervention such as industrial policy (Amsden 1989), trade policy (Chang 2002), technology policy (Lall), to list just a few. However, they rarely saw the state intervention to land development within the context of initial formation of national capital. This oversight is curious because both the enclosure movement, a form of land development that took place during early industrialisation, and the state's role in it have been studied from the outset by numerous authors such as Marx (1990), Moore (1966), Thompson (1991) and Polanyi (1944). Some such as Mandel (1975), De Angeles (2000) and David Harvey (2005) recognized that a similar process is present in contemporary times, yet few authors have made in-depth inquiries about how the state can use land development to facilitate national capital accumulation in state-led late industrialisation. To fill in this gap, this paper uses the South Korean case, especially its experience in the accumulation of real estate capital between the 1960s and 1980s, that is, the heyday of the Korean developmental state.

In this paper, we will use David Harvey's "accumulation by dispossession" rather than traditional Marxist concept of "primitive accumulation of capital" because the former is a larger concept that the latter does not capture. Primitive accumulation of capital is the process where feudal peasants were deprived of land which they had use right if not ownership and put into a status of being free of production apparatus and having to sell their labour force for living. This process is different from normal process of capital accumulation in the sense that the latter is based on exchange of labour force and wage, a legitimate process under capitalism. By proposing a new concept, David Harvey's contribution is to expand the original concept to cover various forms of dispossession that contribute to ensuring on-going accumulation and/or recovery from crisis.

Accumulation by dispossession includes any method of accumulation that is outside normal exchange of wage and labour force. Biopiracy and privatisation of public enterprises are the examples that Harvey shows. Primitive accumulation of capital can be understood as a special case of accumulation by dispossession. The ABD does not necessarily involve production of capitalist working class while primitive accumulation of capital does. The empirical study

of this paper deals with a case of accumulation by dispossession, which contributes to early accumulation of capital but does not incur the production of labour class.

## **Contextualising the Urban Conditions and Housing Production in Seoul**

### *Urbanisation and Increase in Housing Demand*

The three-year-long Korean War had disastrous impacts on the country's fixed assets. As for the housing conditions in Seoul, it is suggested that one in two units was destroyed or became unsuitable for living due to the war (Kim, W-J. 1996). The influx of returning citizens or refugees from elsewhere outside Seoul added severe constraints on housing situations. Illegal dwellings and substandard settlements mushroomed around the city centre and adjacent spaces. Periodically harsh measures were taken by the state to demolish illegal dwellings and relocate residents to city outskirts. For the Seoul municipal government, containing the growth of such substandard settlements and increasing its capacity to supply formal housing units characterised the housing policy throughout the 1960s and 1970s.

For decades after the Korean War, there was a production bias, calling for policies to focus on expanding the housing stocks in order to address the shortage. Despite the increase in the total number of housing units, the rapid growth of urban population meant that there was a constant shortage of dwellings to accommodate independently every household. Immediately after the Korean War, the municipal population reached 1.24 million people in 1954: It took only 6 years to double the size of this municipal population, and another 9 years to double the size of 1960's population and reach 4.78 million (Seoul Metropolitan Government 1983: 18-19). By 1982, the total population of Seoul recorded 8.92 million (ibid.).

Housing shortage in both quantity and quality terms was a major concern for the government and people. For instance, the proportion of the total number of dwelling units to the total number of households in Seoul (often referred to as 'housing supply ratio' in Korea) decreased from 50.1% in 1966 to 45.7% in 1972 (SMG 1973: 185). The open claim of the municipal government to achieve 80% housing supply ratio by 1981 turned out to be far too ambitious (SMG 1973: 186; Yoon 2002). Overcrowding and house-sharing among multiple households were therefore common features of urban living in Seoul (Lim 2005: 34). The quality of existing housing stocks was also inadequate. In 1970, only one in two houses had running water and electricity. Even in 1980, only 55% of dwellings were equipped with modern flush toilet, and 21% did not have hot water supply (RPL 1980 quoted in from Gelezeau, 2007 p.89).

However, the low ratios of housing supply as discussed above indicate potentially a huge demand. In particular, with the economic take-off from the 1960s and the emergence of middle class populace, demand for decent housing soared. On the one hand, the growing

working class and low-income households required affordable housing. To an extent, this was the major concern for the government during the post-war reconstruction period and thereafter. On the other hand, the emergence of middle class populace especially in Seoul during the period of industrialisation also meant that a certain degree of quality was necessary to guarantee a modern way of living. The income level dramatically increased in Korea: Between 1963 and 1979, the average annual growth of income was 9.2% (The Bank of Korea 2011). This meant that in less than every eight years, the household income doubled. Consequently, it was estimated that the size of middle class reached 10.4% in 1970, 13.2% in 1975 and 18.7% in 1980 (Lim, 2005: 81). The growth of middle class populace translated into the rapidly growing need for decent housing. Apartments arrived at the right time.

### *Urban Planning: its Modernist and Developmentalist Way*

After General Park's military coup in 1961, industrialisation became the way of thinking as well as the aim for all policies (Cho, 2000; Sonn and Kim 2013). Especially during the 1970s, the need to mass-supply housing of decent quality was noted by planners, bureaucrats and politicians. Medium- to high-rise apartment estates came to be recognised as the best solution to this and as a modern way of housing provision. This attention to mass production of apartment units could be witnessed from the period shortly after the war (The KyungHyang Shinmun 1953).

Until the 1970s, apartments were rarely regarded as desirable mode of housing for middle class families. Earlier apartments were usually as small as 30 square metres and were not equipped with modern facilities such as indoor toilet (Chang 1994). From the mid 1960s, higher quality apartments for middle class started to appear but they were mainly occupied by mainly intellectuals and artists rather than the mainstream of the middle class.

An event that symbolised the emergence of apartments as an attractive mode of residence was the popularity of Yeouido Sibeom apartments that were built in 1971 with 1596 units. The Seoul municipal government built these apartments in Yeouido for profit to fund infrastructure projects elsewhere. Before long, the public, especially young couples, were lured to these apartments for their modern facilities such as central heating, flushing toilet and elevator. Within two months of the completion, the price doubled. At the beginning of Yeouido development, the Seoul municipal government almost forced major construction companies to participate. Businesses were reluctant at the time, because they found participating in infrastructure projects financed by the government to be a bigger and more stable business than housing development (Lim 2005: 80). Yeouido, a government-owned island in the Han River was transformed into a residential area in 1970 when Koreans were still not familiar with high-rise residence and still regarded apartments as low-income housing. Upon the huge success of Yeouido Sibeom apartments, Seoul government started to sell other parts of the island to private developers and completely transformed this former military (and subsequently civilian) airport to an island full of high-rise apartments and office buildings (Sonn, volume 2). Even today, all residential buildings are apartments and there is no single

detached house on the island.

Furthermore, success was assured by using the Korea National Housing Corporation as the initiator of various experimental projects and the risk-bearer. When places like Gangnam and Yeouido were developed, the Korea National Housing Corporation built its own apartment estates with the best construction technology available at the time. This initial investment ensured the profitability of construction for private companies. The Korea National Housing Corporation also led the mass production by testing the construction of danji, a term that was attributed to the large-scale new housing estates. These danji models were to realise an economy of scale in housing production. One of the largest danji was Mokdong danji that saw the construction of nearly 27,000 apartment units (Yoon 1994: 86). The danji model became the basis upon which apartment construction was to be carried out in exclusively zoned districts (further explained later in this paper).

### *Housing: From Welfare Goods to Commodities*

Housing was a major component in the state's five-year economic planning and also in its ten-year national comprehensive physical planning. Reflecting such importance, housing issues were placed under the responsibility of the Bureau of Construction under the Economic Planning Board after the 1961 military coup. This was in contrast with its placement under the Department of Health and Welfare in the 1950s. The post-1961 arrangement meant that the state was more actively to intervene in housing policy-making and to make sure housing construction was in line with the state's economic planning directives. In 1963, the Bureau of Housing became an independent Department of Construction, taking over the responsibility of housing construction, though the Economic Planning Board was still the control tower for making key decisions under the developmental state (Lim, 2005: 40).

Simultaneously, the Korea National Housing Corporation was established in 1962. Its predecessor, Housing Unit or Jootaeg Yeongdan, was similar to housing corporations in the UK or many other countries whose main responsibility was to provide social housing for disadvantaged groups. The newly established Korea National Housing Corporation, on the other hand, was to fund itself by building and selling new housing units using the seed money from the central government. The main target was the middle class who could afford these new housing units. Financial arrangements were also invented including the National Housing Fund and the Housing Subscription Accounts as nationwide savings schemes to pool public financial resources. In this sense, the foundation of institutional arrangements for transforming the housing policy from welfare to housing production for profit was constructed from the early 1960s (Lim 2005: 58).

This transformation also shows that the state did not want to use its limited resources for welfare and preferred to direct them to address the main political agenda, that is,



industrialisation. The provision of collective consumption such as housing was largely based on market means rather than state provision, reflecting the Korean developmental state's political alliance with large businesses (Park 1998). The industrialisation drive in the 1970s was under the dictatorship of President Park Chung Hee who introduced the unlawful draconian Yushin Constitution in 1972 to safeguard its power against democratisation protests, labour movements and inter-Korean conflicts.

Despite the strong state drive for socio-economic changes and political control, housing was still left in the domain of market provision, periodically assisted by public corporations and municipal planning power (Lim, 2005: 59). For instance, in 1972, in the same year as the introduction of the above-mentioned Yushin Constitution, the Act for the Promotion of Housing Construction (The Government of the Republic of Korea 1972) prescribed every detail of housing construction but little was mentioned about social housing. That is because the purpose of this act was to enable the government to manage private house builders in the way that was compatible with the government's economic agenda (Lim, 2005: 69).

Apartments were seen as the optimal solution for the ease of standardisation and modularisation, which would allow mass production and high density construction on small land parcels. This view could be witnessed even from the 1950s (Kwon et al. 1955 for example). From the mid-1970s, the state aimed to involve the private construction firms in the mass provision of large-scale high-rise estates in the south of the Han River. These private builders were permitted to build larger flats for middle class populace and hence maximise profits. This was clearly against the the previous state policy of building apartments to provide mass housing for the working class in need of affordable modern housing (Jeon et al. 2008: 218-225; Lim 2005).

### *Lessons from the Forced Displacement and Relocation*

During the early years of post-Korean War reconstruction, Seoul's inner-city districts in the north of the Han River were characterised by crowded housing conditions and mushrooming substandard settlements with illegal dwellings. To constrain the growth of these substandard settlements and to release land for development in times of remaking Seoul modern, the state used its apparatus and mobilised periodic campaigns to demolish illegal dwellings and the prevention of their construction as well as relocation of local residents to urban outskirts. These relocation attempts to release inner city areas for capital investment however produced severe problems for displacees. These problems were epitomised when the ambitious municipal plan to implement a site-and-services programme known as Gwangju housing complex construction (Ha 1994). The site was located outside Seoul, about 20 kilometres away from central Seoul, and was designed to have the capacity of accommodating more than half a million of urban poor residents. This would have accounted for about 14.5 percent of the then municipal population in 1966 (Kim, S-H. 1996). It was destined to become effectively the city of the urban poor. During the first three years of implementation, about three



percent of Seoul residents were relocated to Gwangju danji. The programme came to an abrupt halt when a large-scale protest broke out in August 1971 against poor provision of urban services and the absence of employment opportunities therein. In the end, the Gwangju complex came to accommodate a little more than 20% of the original aim. For the Korean developmental state that was struggling to gain its political legitimacy and also achieve national stability to address developmental goals, such protests were to be avoided. The urban expansion to the south of the Han River and the promotion of Yeongdong development (subsequently renamed as Gangnam) therefore can be seen as a strategic decision to make sure intense development takes place away from existing built areas with a high population density.

## **Means of Dispossession and their Consequences**

In order to lay the foundation for the domination of apartments in the housing sector, public properties were disposed of the general public and transferred to a small number of privileged private builders, a process that contributed to the accumulation of capital by dispossession. We could highlight several means of such dispossession.

### *Transfer of Public Assets to Private Hands (1): Flood Plain Reclamation*

A unique method of dispossession took place in the form of transferring public land assets to private hands by means of flood plain reclamation. This happened mainly to the flood plains along the Han River, the main river of the capital. Until the early 1970s, the Han River that divided Seoul into half was 1.8 to 2 km wide, but for the most part of dry seasons, the actual channel width tended to be only a quarter of that in wet seasons (Sohn, 2010, volume 1: 294). The reclamation of flood plains started in 1967. Over the next decade, the reclamation occurred incrementally, turning 9 sites or 7.7 km<sup>2</sup> of sand beach into dry land (Chang 2010). The posh high-rise apartment areas in Ichon, Jamsil, Yeouido, Banpo, Apgujeong among many were all built on such reclamation sites. For instance, the development of a new 9.36 km<sup>2</sup> Jamsil site to accommodate 300,000 residents started in 1971 and included the reclamation of 2.74 km<sup>2</sup> to be carried out during the first two years (Dong-a Ilbo 1971).

We consider the developers' appropriation of reclaimed flood plains as the dispossession of public assets for two reasons. Firstly, the land belonged to the state, which was supposed to use the land for the benefit of its own citizens. The easy profits that developers made through reclamation projects or purchasing reclaimed flood plains at preferential prices could have been retained by the state but this opportunity was lost. For instance, in Jamsil, out of 2.49 km<sup>2</sup> of reclaimed land, only 14% was given back to the government (Sonn 2003, volume 3: 196). The state-retained share of reclaimed land was eventually used for building roads with tax payer's money and contributed to the rise of the exchange value of the land appropriated by construction firms who subsequently realised bigger profit

margins through commercial housing construction.

Secondly, citizens' use right associated with the public space was not compensated. For years, the riverside beaches had been used for swimming and boating by those who could not afford vacation in the seashore or mountains (Sohn, 2010, vol. 1: 294). Some of these beaches were used for non-leisure purposes too: for instance, the Ichon beach was used as a locus of political assembly, having brought about 300,000 people who gathered to listen to the presidential candidates' speeches (Sohn, 2010, vol. 1: 328). The physical access to the Han River as well as the panoramic river views was monopolised by the apartment estates that were constructed on the reclaimed flood plains and adjacent planned areas. The monopolised rents were internalised within apartment prices, to be appropriated by builders and homebuyers

This opportunity to extract extra profits became the source of suspicions of various corruption cases. The most notable is probably the case of Jamsil. In 1969, the consortium Gyeong'in Gaebal, comprised of four major construction firms at the time (Hyundai, Daelim, Kukdong and Dong-a) was given development rights for reclaiming Jamsil flood plains. In 1971, the construction permit, which did not automatically follow the development right, was given. There were evidences that this construction permit was given through corruption. The Head of Department of Planning and Management of Seoul Metropolitan Government did not realise the companies started construction months before formal issuance of the permit. There were individuals living in that area and small mining companies who had mining rights. The permit would give the development consortium to take care of those problems on their own. But the consortium started construction without the permit. It is difficult to believe that they acted on their own without assurance from the city hall or from the national government so it is widely assumed that the Gyeong'in Gaebal had informal permission before the formal permission in 1971.

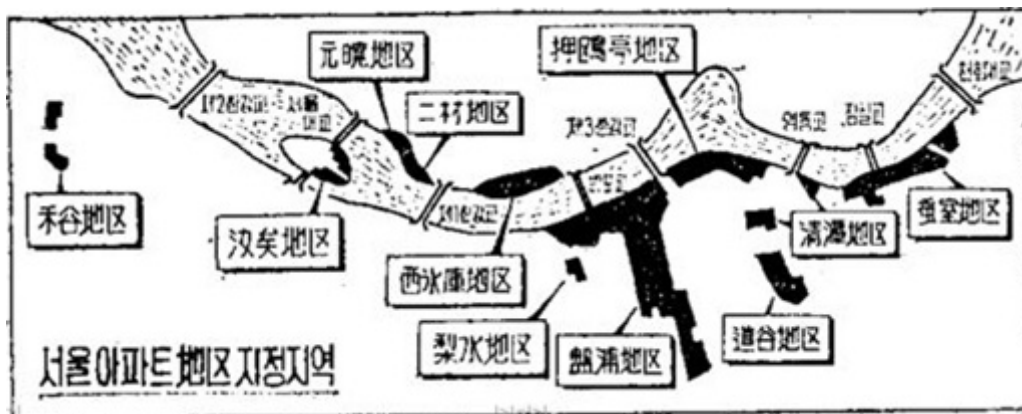
The Apgujeong area also looked suspicious to many. Hyundai initially applied for government permission for developing a manufacturing district. Then, without the city hall's knowledge, the central government changed the zoning into a housing district, which would allow much bigger profits by building commercial housing estates. Furthermore, the original permission was for the development of 0.12 km<sup>2</sup> but Hyundai exceeded this by 30%, eventually reclaiming 0.16 km<sup>2</sup>. When the city hall ordered the restoration of illegally reclaimed portion, the company simply did not comply, claiming that it was impossible to restore the original status. Hyundai eventually got away with it (Cheong 1990). The reclaimed land became the foundation of Hyundai's construction of apartment estates with its own brand name, Hyundai, from the late 1970s.

*Transfer of Public Assets to Private Hands (2):  
Designation of Apartment Construction Zones*

The state also used its zoning power in the process of capital accumulation, enabling the

construction of large-scale medium- and high-rise flats. After a series of rumours and speculations, the state made an official announcement to designate “apartment construction zones” on 23 August 1976 (The Kyunghyang Shinmun 1976a). In total, 12.29 km<sup>2</sup> were designated, including seven districts in the south of the Han River (Jamsil, Banpo, Apgujeong, Cheongdam, Dogok, Yisu and Hwagok), three in the north of the Han River (Wonhyo, Yichon and Seobinggo) and Yeoui on the Yeouido (ibid.) (see Figure 2 below). Three zones, Banpo (5.51 km<sup>2</sup>), Jamsil (2.45 km<sup>2</sup>) and Apgujeong (1.19 km<sup>2</sup>), were the three largest zones, which, together with Chengdam and Dogok, were part of the Gangnam District that came into existence from the 1st October 1975 (Seoul Metropolitan Government 1999: 47). Within two years, apartments constructed in the Gangnam District in particular became extremely popular, leading the upturn of real estate business cycle (The Kyunghyang Shinmun 1977a). They became the most expensive and sought-after flats in Seoul, absorbing the speculative capital from the nation’s emerging new middle class. By March 1977, one more site was added to the original designation and 12 sites in total or 12.70km<sup>2</sup> were designated as apartment zones (MK Business News 1977a). They covered approximately 2% of Seoul’s total surface area.

**Figure 2: Apartment zones designated in August 1976**



Within each zone, only apartment buildings and those public facilities permitted by estate masterplans were to be constructed. The apartment zoning also offered various tax exemptions such as purchase tax and registration tax (The The Kyunghyang Shinmun, 1976b). Furthermore, the zoning came with various constraints on existing private landowners in order to make sure the state aspiration to transform the districts into high-rise zones was ensured. For instance, those who owned land parcels in a designated apartment zone were required to sell his/her land to only the government or construction firms that were building apartments in the zone (Dong-a Ilbo 1976).

The apartment zones and the appointed firms additionally benefited from the state-led provision of transport infrastructure. Having opened the first subway line (Line No 1) in August 1974, which traversed horizontally the northern Seoul, the central state and the Seoul municipal government embarked on the construction of the circular Line No

2, which connected major apartment zones in the south of the Han River with each other and with the historic city centre. Having been conceived in the early 1970s, the plan to build the Subway Line No 2 was officially announced in 1977 by the then mayor of Seoul (MK Business News 1977b). Key apartment zones were also connected by a number of bridges, thus helping new residents with ease of access to the city centre. For instance, the construction of Seongsu Bridge started in April 1977 shortly before the official announcement of apartment zones, and was completed in October 1979 when the Apgujeong apartment zone was seeing the rapid development of high-rise commercial flats by the Hyundai conglomerate (Dong-a Ilbo 1979).

The zoning substantially increased the value of the land over the years. If the state did not wield its zoning power and allowed the market determine the course of urban development, rent would have been determined mainly by the location of each site. In turn, the density of urban development would have been established by the rent. Therefore, exempting certain areas from density regulation, leaving all the other areas under regulation would have resulted in the transfer of unrealised rent from the latter to the former.

#### *Designation of Appointed Firms for Housing Construction*

The state also allowed the transferred rent to be appropriated by a small number of construction firms by designating a selection as appointed firms (Jijeong Eopchae in Korean) for housing construction. We can call this dispossession of unrealised profit from small capital. On 12 May 1978, the central government appointed 46 construction firms as Jijeong Eopchae. Only these appointed firms were allowed to build apartments in apartment zones (MK Business News 1978a). Based on the revised Act for Facilitating Housing Construction (jutaeg-geonseol chogjinbeop in Korean) in December 1977, these appointed firms were given preferential treatments such as the power to apply for compulsory purchase of privately owned lands if more than two-thirds of lands within an apartment zone were acquired (ibid.).<sup>2</sup> The appointed firms were also allowed to borrow foreign loans for housing construction (MK Business News 1978b). The main justification of this restriction to confine housing construction to a selected few was due to the understanding that small firms could not handle large-scale development of high-rise apartments that required capital and new technology.

In return for the preferential treatments, appointed firms were required to mandatorily supply at least 1,000 housing units annually in order to assist the government targets for annual housing provision. Before the designation of appointed firms, only 10 firms turned out to have supplied more than 1,000 apartment units in 1977 (MK Business News 1978c). By 1987, 93,552 apartments were built in the Gangnam area: 47.56% were supplied by the nine biggest appointed firms, 22.45% by the other 37 appointed firms, and the remaining 30% by other small builders (Lim 2005: 88).

These processes contributed to the primitive accumulation of some of the largest



construction firms in Korea. None of the apartment specialist builders were among the top 100 Korean firms in 1965. By 1984, however, Hanyang had reached a rank of 20th, Samho 73rd and Life 74th (Lim 2005: 88). Some of the successful specialist firms went bankrupt at real estate downturn in later years, but that does not mean the primitive accumulation through apartment building disappeared into thin air. The assets of bankrupt companies, usually urban land and unsold apartments were picked up for low price by the companies that survived the downturn. The latter sold these assets in the next real estate boom enjoying extra profits.

### *Chaebol: Growth of Construction Subsidiaries*

Merger and acquisition of construction firms by the subsidiaries of large businesses laid the foundation for major construction firms to build up their size and allowed them to participate in the construction of large-scale apartment estates from the 1980s. As noted earlier in this paper, the Korean developmental state is well-known for its political alliance with large businesses or Chaebol (Castells 1992; Park 1998; Woo-Cumings 1999). Chaebol had ups and downs in their business fortunes over the years, some being the victims of their own success that depended heavily on external borrowing. Chaebol was also known for diversifying their businesses and most major Chaebol had construction firms as key subsidiaries. These construction firms grew in size, initially helped by their participation in state-funded infrastructure projects (e.g. hydraulic dams, expressways and power plants). Commercial housing construction in the 1950s and 1960s was largely in the business domain of small construction firms and mostly involved detached houses or tenement buildings, but from the 1970s in particular, construction subsidiaries of Chaebol became the major actors, as large-scale commercial projects to supply medium- and high-rise apartment estates became the mode of housing strongly preferred by the state.

Some of the large conglomerates simply diversified and expanded their business scope to participate in the growing commercial housing market that came to see the domination of large-scale apartment estates from the late 1970s. Hyundai was the best example for this. Having been the key player in the nation's post-Korean War reconstruction carrying out major infrastructure projects, its size grew even bigger by participating in the overseas construction markets especially in Vietnam in the 1960s and the Middle East in the 1970s. Subsequently, as the government began to actively consider the policy of designating apartment zones, the domestic housing market especially in the apartment sector became part of the conglomerate's main business areas. Its construction subsidiary Hyundai Engineering and Construction Co. (hereafter HDEC) set up a subsidiary named Hanguk Doshi Gaebal in March 1976. The new subsidiary was to specialise in the construction and sales of commercial apartment units. One of the major focus areas was the Apgujeong apartment zone where the HDEC secured 0.46 km<sup>2</sup> (46 hectare) of land including a site of reclaimed flood plain and built more than 3,500 flats geared for middle- or higher-income households. Hyundai used its own name as the commercial



brand when marketing the new flats, and the Hyundai Apartment became the symbol of luxury housing estates.

In other cases, merger and acquisition became a major means for existing construction subsidiaries of Chaebol to grow in size and diversify its own business scope. This was aided by the developmental state. For instance, the Samsung conglomerate established its construction subsidiary Samsung Construction in October 1977, and soon afterwards acquired Sinwon Development (then part of Sinjin conglomerate) in 1978. Sinwon Development had a proven track record of overseas construction businesses but was experiencing severe financial constraints prior to Samsung's acquisition (MK Business News 1978d). The decision to hand over the management of Sinwon Development to Samsung was decided in a meeting on 10 July 1978 when the heads of economy-related ministries came together at the President's Office (known as the Blue House) to discuss the fate of the troubled company. Before Samsung's acquisition, Sinwon Development was recorded as the 4th in terms of overseas construction competitiveness ranking announced by the central government in April 1977 (MK Business News 1977c). The acquisition allowed Samsung Construction to jump the queue and be placed at the 24th in the government ranking for construction competitiveness in 1979 and the 19th in 1980 (MK Business News 1980). This set a solid foundation for the company to rise to the top group of construction firms in the booming housing market from the 1980s.

### **Conclusion: Korean Accumulation by Dispossession in 'Gangnam' style**

In this paper on analysing the role of the Korean state in promoting urban accumulation in Seoul, we have argued that the state resorted to the use of accumulation by dispossession in a way that reflected the key characteristics of the Korean developmental state. In this process, major builders, who initially experienced 'primitive accumulation' through participating in state-funded infrastructure projects and overseas construction markets, were eventually attracted to the highly speculative commercial housing market. The introduction of high-rise apartments in the 1970s fuelled the accumulation aspiration for both emergent middle class prospective homebuyers and the private builders who took the advantage of the state drive to modernise the country's physical landscape.

The early days of introducing apartments were dotted with both success and failure, but they quickly became an object of desire and speculative aspiration. Money capital resulting from the booming economy and in particular overseas construction market in the 1970s was attracted to the new commercial apartment units, transforming them into appealing immobile investment assets in times of 1970s' high inflation. Modern indoor facilities and spacious flats were particularly alluring from the eyes of the country's new middle class when nearly half of the urban households were living in overcrowded conditions in dwellings that lacked basic facilities. For instance, the size of flats constructed in Apgujeong by Hyundai was mostly around 100 square metres or larger: this was indeed luxurious, given the fact that the per capital floor space in Korea's urban areas was only 9.3 square metres in 1980 (Economic

Planning Board 1987: 247). As both speculative objects (exchange value-wise) and comfortable dwelling (use value-wise), apartments came to symbolise the new affluence found in the country in times of its condensed industrialisation and modernisation.

Without the state intervention in planning through the designation of apartment zones and appointed firm for housing construction, new housing development in Seoul might have spread more or less evenly across the entire space in Seoul. Planning tools such as the density regulations permitted high density development in those exclusive apartment zones in Gangnam. The result was the transfer of unrealised development profits into the zoned space, to be appropriated by the top tier of the newly appointed firms. Small builders were excluded from this opportunity.

The accumulation by dispossession in Korea's urban development therefore was depending on the oligo-polisation of rent that accrued to a small number of capitalists. This type of dispossession that involved the transfer of public use rights to private hands took place without violence, largely helped by the exercise of central planning power in the hands of the Korean developmental state. The fate of individual capital was often at the mercy of the central state, which used the Economic Planning Board and other related government committees to discuss the future of poorly functioning industrial sectors and individual Chaebol. Under these circumstances, in the construction and housing sector, builders such as Hyundai Engineering and Construction Co. and Samsung Construction Inc. were elevated to big firms, becoming capable of carrying out large-scale mass production of high-rise apartment estates from the 1980s. The accumulation of capital by these major builders also allowed the corresponding Chaebol such as Hyundai and Samsung to invest in other industrial sectors including heavy industries during the 1970s. Without the appropriation of profits gained from the participation in urban and housing development, these Chaebol might not have been capable of diversifying their businesses as much as they did, and Korea might not have joined the group of newly industrialised economies.

As discussed partly in this paper and also observed in other scholarly works, the dispossession of private use rights (e.g. family homes and farmland for cultivation) was highly violent. The key to this type of dispossession was to ensure the large-scale land assembly that enabled mass housing construction and installation of urban infrastructure and facilities. This land assembly involved the reclamation of flood plains as well as the designation of apartment zones exclusively dedicated to apartment construction. The zoning also severely restricted the exercise of private use rights in order to make sure any additional construction activities were conforming to the masterplanning of the municipal government.

To these extents, the land assembly in Seoul throughout the 1960s and in particular 1970s was the process of enclosure that brought urban and rural lands under the control of the state, subsequently to be released to private builders and state-affiliated development

agencies such as the Korea National Housing Corporation. Such enclosure also enabled Seoul to facilitate urbanisation and modernisation of urban landscape in the south of the Han River in particular. For the resource-constrained Korean developmental state, the urban expansion to the south of the Han River was to some extent a strategic choice due to the cheap land prices. Furthermore, the south of the Han River was largely seeing farming activities by small farmers, which also meant that the population density was substantially lower than the north of the Han River and therefore much less possibilities of residents' protests against state actions (Planning and Coordination for the Cabinet Office 1972). The latter aspect was particularly important for the developmental state that saw large-scale protests at the time of relocating inner-city poor residents to the urban outskirts. Given the infancy of the developmental state and the weak legitimacy of the military regime, it was advantageous to avoid the possibilities of large-scale popular confrontations.

Once the construction of Gangnam apartment zones was coming to completion, the state began to move its focus to the inner-city areas and produce ambitious programmes to transform existing substandard settlements into high-rise apartment complexes through market-driven redevelopment (see Ha 1994 and Shin 2009). The development of Gangnam in the 1970s commingled with the city-wide redevelopment from the 1980s enabled the massive urban accumulation, made possible by the strategic planned interventions of the Korean developmental state in the housing sector in alliance with the large businesses. To this extent, the apartment culture and the rise of Gangnam as the symbol of wealth and power are the products of the state and Chaebols. As argued in this paper, the role of the developmental state was more decisive.

## Notes

1. Our original plan was to snowball from the small number of the contacts that we have at the onset. However, because they are in their late 70s and 80s, many of key bureaucrats have passed away and the live ones have lost contacts of each other. We eventually conducted two interviews but they were more helpful than we expected due to their key roles in the 1970s within the Seoul Metropolitan Government.
2. While clearly stated in the Act and subsequent government guidelines, compulsory purchase was exercised very limitedly as companies feared of its damage to their reputations.

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# **Management of Risks in Developmental State: Cases of Location Policies Concerning with Nuclear Power and Production of Risksapes in South Korea**

*Sang-Hun Lee, Jung-Pil Lee*

# Management of Risks in Developmental State: Cases of Location Policies Concerning with Nuclear Power and Production of Risksapes in South Korea

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## 1. Introduction

The purpose of this paper is to shed light over the unexplored aspect of theories of developmental state focusing on management of physical risks in developmental state using the cases of location policies concerning with nuclear power and the production of risksapes in South Korea. Most of literatures on developmental states have shown academic interests in mainly the origins, historical deployment, driving forces, hegemonic leadership, possibility of universal application of developmental model to other context, political characteristics (democracy or authoritarianism), and ideational foundation of the developmental states (Johnson, 1982, 1999; Woo-Cummings, 1999). Despite of minor differences among them, developmentalism can be defined as “an ideology holding that economic progress is best achieved when the state leads the nation in promoting economic change. Public ownership, planning, and goal setting are institutional means to achieving national economic development. Public private sectors cooperate under the overall guidance of a pilot planning agency. The state further encourages cooperation among businesses and between business and labor to speed the adoption of new technology, reduce production costs, and expand the nation’s share of global markets” (Hill, R.C. et al, 2013: 6). Based on such definition of developmentalism, theories of developmental state have tried to explain the success stories of developmental states.

In terms of risk, developmental states also provided selective industrial sectors with various institutional support even including violent tools which can avoid several political and economic risks like interest rate, taxation, exchange rate, political turmoil like strike of labor movement and so forth. If the meaning of developmentalism is extended to even the cases of Scandinavian welfare states, social risks of workers have also been hedged by developmental states. “Strong universalistic welfare state provided social insurance to workers against the risks emanating from structural changes, thus reducing their resistance to changes” (Chang,

2010: 3). Then how the physical risks, including ecological risks have been managed by developmental states?

So far, literatures on developmental states seldom showed considerable concerns on the physical risks from the performance of developmental states. However, after the tragic accident of explosion of nuclear power plants(hereafter NPPs) at Fukushima, Japan on 11 March 2011, physical risks, i.e. radioactive pollution from NPPs which have played significant role in the process of industrialization of developmental states came to raise questions to the existing developmental risk management. In other words, the physical risks derived from the NPPs which have provided developmental states with primary electricity sources became societal concerns.

In case of South Korea, nuclear power technology was imported from mainly U.S.A., in 1960 and it has been regarded as crucial resources for industrialized development. However, after 1990, the issues concerning to NPPs have inclined to provoke sharp social conflicts. In particular, decision of location for low and middle level radioactive waste disposal site(hereafter RWDS) at Kyungjoo city took 18 years with desperate trial and error including strong resistance from residents and civil referendum. Even scandals of bribery of supplier (one of famous economic conglomerations) of significant elements for nuclear power plants to 'Korea Hydroelectric and Nuclear Power'(hereafter KHNP) which is one of the power generating subsidiaries of Korea Electric Power Corporation(hereafter, KEPCO), regular drug in-taking of operators in nuclear power plants, and fabrication of test records of the important elements by well known examination agency gave a tremendously big shock to society. On top of it, plan of locating several 765kV electric transmission towers at specific town like Milyang City in intensive and military manner has brought about suicide of old man(age of 70) and serious social conflict including mass demonstration of elderly people in town and ordinary citizens. Thus, social concerns about the physical risks of NPPs have been raised nation-wide.

As a matter of fact, South Korea as a developmental state has tried to manage the physical risks related with nuclear power from the beginning. In particular, the location policies of NPPs and RWDS could be informative example of the historical change in management of physical risks by developmental state. For almost 50 years of development, South Korea experienced democratization, local autonomy system, globalization and neo-liberalization of political and economic system after IMF financial crisis, growth of civil society, and activation of anti-nuclear movement. Such social events had impact on the way of risk management in South Korea.

This paper assumes that there are two different phases in physical risk management



in particular, in terms of spatial dimension. The first phase is from early 1960s to late 1990s. In other words, it can be told before IMF financial crisis of South Korea. Within this phase, basic locations of NPPs were finalized at four counties; Gijang county in Gyeongnam Province (Gori NPPs), Wolsung county(Wolsung NPPs) and Uljin county in Gyeongbuk Province(Uljin NPPs, recently changed name as 'Hanul' NPPs), Yeongkwang county in Jeonnam Province(Yeongkwang NPPs, recently changed name as 'Hanbit' NPPs). And government tried to find out proper location for low and middle level RWDS, to some extent, in undemocratic way. Government and KEPCO localized the risk under the imperatives of national economy and national security and responded to inactively or oppressed political and economic demands from local area. Thus, vertical dominance-subordination risk management system has been established.

The second phase is from late 1990s to present, i.e., after the IMF crisis. During this period, locations of additional new NPPs, low and middle level RDWS, and electric transmission towers were main concerns of risk management by developmental state. There were unprecedented difficulties and strategic shift in managing the multiple risks from new NPPs, RWDS and electric transmission towers. With the hegemony of neo-liberalism after the IMF crisis and social reconstructing, risks from nuclear power related facilities came to be translated into an opportunity for regional economic development and developmental state utilized such translation. In other words, risks became economic opportunity. Thus, horizontal and competitive conflict management system has been established.

Against historical backdrop of physical risk management in South Korea, main questions of this paper are as followings; how the locations of nuclear power related facilities like NPPs, RWDS, and electric transmission towers were decided by developmental state? In terms of spatial dimension, how developmental state managed the physical risks derived from those facilities? Why was there big change in risk management policy? What is the theoretical contribution of the case studies to the theories of developmental state?

As a methodology, qualitative methods like in-depth interviews with residents who have memories about early phase of locating NPP in the county and reviewing wide-range materials like newspapers, official reports, statements, books, magazines and others related to the nuclear power plants were adopted.

## **2. Developmental States and Management of Physical Risks**

The nuclear power technology is the representational mega-technology. Huge amount of capital investment and complicated bureaucratic systems are required for operating it. Except the physical risks, nuclear power has been regarded as terrific technology which can generate large volume of electricity for industrialization in stable manner comparing with other energy sources. Thus, in many cases, developmental states have considered nuclear power plants as highly useful resources for capital accumulation and economic development of state(Ku, K.W, 2010).

Moreover, South Korea has had security concerns to the nuclear power, due to the division of its polity and antagonism between two Koreas. It means that political and military security issues closely connected with NPPs in South Korea. Thus, NPPs were always treated as military facilities and any resistance or criticism against the locating processes of nuclear power plants has been regarded as threats to national security(Kim, J.D. and Byrne, J., 1990; Ko, D.S., 1992; Jin, S.H., 2009; Ku, K.W, 2010).

When it comes to the issue of locating NPPs, it can be understood as ‘state spatial project’(Brenner, 2004). According to Bob Jessop, the capitalist state always showed a sort of selectivity towards some social forces or actions. However, the selectivity cannot be easily reduced into the class interest or requirement of capital accumulation. It is constructed through restless social-political struggles and strategic interactions among various social forces within state. He called it ‘strategic selectivity’ and understood state as ‘political strategy’(Jessop, 1990; Park, B.G., 2012). State is not a coherent and integrated actor. There are contradictions and conflicts between state’s organizations and policies. Therefore, to sustain the functional integrity of state, it should pursue series of actions which can contribute the functional and organizational unity. These are called ‘state projects’(Jessop, 1990; Park, B.G., 2012).

Following the concept of ‘state projects’ of Bob Jessop, Neil Brenner also attaches importance to the strategic selectivity of state. The territory of state is not given a priori but made by active efforts and actions of state. These are called ‘state spatial project’(Brenner, 2004). And, it is a consequence of ‘state spatial strategy’. ‘State spatial strategy’ is the action of state to intervene or regulate the economic crises emanated from the process of capital accumulation. It can be presented as accumulation strategy or hegemonic project. For example, industrial policies, housing policies, regional development policies to regulate capital accumulation and coordinate geographical pattern of political competition are understood as practical result of the ‘state spatial strategy’(Park, B.G., 2012). The ‘state spatial project’ and ‘state spatial strategy’ result in preferential region, space, and scale comparing with others. It is called ‘spatial selectivity’. In other words, based on strategic interactions among social forces within and through state, ‘state spatial project’ and ‘state spatial strategy’ are conceived and which reflect the ‘spatial selectivity’(Brenner, 2004).

Risk management of developmental state can be understood as the ‘strategic selectivity’ of state. In particular, locating policy of risky facilities like toxic waste dumping site, incinerators, radioactive waste depository and so forth is the seminal example of ‘state spatial strategy’. The process of locating risky facilities is not only result of scientific and neutral decision making policy but also output of ‘state spatial project’. Generally speaking, isolated and remote regions, economy-depressed regions, discriminated regions with different reasons like race, religion and so on are apt to be selected as location for the risky facilities. Various cases on environmental justice movement might be salient

evidence of the 'state spatial project' in risk management (Hofrichter, 1993)

To understand the risk management of developmental state in terms of spatial strategy, the concept of 'riskscapes' deserves serious attention (Müller-Mahn, 2013). The "riskscapes, viewed from different perspectives and by different actors, are partially overlapping, intrinsically connected and at the same time often controversial socio-spatial images of risk" (Müller-Mahn, 2013: 26). It means that even physical risks and the location of the risks are not given but socially constructed. Thus, "depending on the viewpoint, the practices carried out and the risks attuned to, riskscapes can vary considerably, although they might refer to the 'same objective spatial expense'" (Müller-Mahn, 2013: 27).

If riskscapes are socially produced, what kind of riskscapes have been produced by developmental state? As Chalmers Johnson referred, developmental state is basically has no relationship with democracy when it is defined as "some form of state accountability to the representatives of the majority of citizens combined with respect for the rights of minorities" (Johnson, 1999: 53). And the "legitimacy of developmental state occurs from its achievements through projects or goals", although "such legitimacy based on projects or goals is, of course, fragile in that it normally cannot withstand failure" (ibid). Therefore, we can assume that production of riskscapes by developmental state might be undemocratic and fragile. The physical risk management through location policy of nuclear power related facilities in South Korea would demonstrate the developmental state's way of production of riskscapes and its consequences.

### **3. Brief History on Nuclear Power in South Korea**

After the liberation of 1945, the first president of South Korea, Dr. Rhee Seung-Man's government had affirmative and utopian images on nuclear power, and juxtaposed 'peaceful nuclear of liberal camp' and 'destructive nuclear of communist camp' scheme. Politicians, bureaucrats, researchers, and experts group of Dr. Rhee's government have considered nuclear power as significant technological tool for overcome overall lagging of society through serving economic development (Kim, S.J, 2012). Such socio-technological imagination was mobilized for the expert-led and industrialization strategies of developmental state. However, contrary to popular assumption about simultaneous adoption of nuclear power and heavy-industry based economic development strategy, it is not true. As a matter of fact, South Korea as developmental state has attached importance to the nuclear power from the beginning of its industrialization strategy.

#### **Figure 1. Transition of power generation and nuclear power(1945-1961)**

第 5—3 表 發電設備の推移

區分	解放直後 1945. 8. 15 後		6. 25 事變直前 1950. 6. 25 前		6. 25 事變直後 1950. 6. 25 後		1961 年末現在	
	設備容量 Kw	1945年 平均電力 Kw	設備容量 Kw	1949年 平均電力 Kw	設備容量 Kw	1951年 平均電力 Kw	設備容量 Kw	1961年 平均電力 Kw
總數	198 740	31 893	229 640	74 768	254 140	38 428	367 254	231 560
(指數)	(100. 0)	(100. 0)	(115. 5)	(234. 6)	(127. 9)	(120. 5)	(148. 8)	(725. 8)
水力	62 240	25 750	62 240	23 088	62 240	6 700	143 280	87 733
火力	136 500	6 143	140 500	36 542	136 500	10 035	222 500	143 478
發電船	—	—	26 900	15 138	55 400	21 693	—	—
島嶼	—	—	—	—	—	—	1 474	349

資料：韓國電力株式會社

Source: Board of Economic Planning, 1962, Economy White Book, p. 153

Above table shows that nuclear power was included in power generation statistics, even though there was no NPP in South Korea at that time. It means that South Korea considered nuclear power as significant power source from the beginning of industrialization. And, with feasibility study on the location of the first NPP from 1964 to 1967, Gori village in Gijang county was selected. As is well-known, the industrial basis of South Korea during 1960s was light industry. Thus, nuclear power was not to be adopted for specific accumulation or development strategy, but for supplying stable electricity to economic growth in general manner. Of course, accelerated expansion of nuclear power policy during 1970s can be evaluated to support the developmental strategy of South Korea at that time.

During 1960s, all projects and researches related with nuclear power were pursued by the ‘Office of Atomic Energy’ (OAE) which was established in 1959. The ‘Commission on Nuclear Power Generation’(CNPG) in OAE was established in 1962 and pursued power generation business using nuclear power and the location of nuclear power plants was decided by CNPG. The CNPG considered Kyunggi-Incheon area, Busan city vicinity, Ulsan city vicinity, and Mokpo city vicinity for the proper location of nuclear power plants owing to high demand of electricity, easiness of waste treatment and securing cooling water(Korea Electric Power Corporation, 1981: 305-306). Based on the research of the location for the first NPP(150,000 kW) in 1965, three candidate locations were chosen. They were all very close to big cities like Seoul city, Busan city, Ulsan city and had relatively small populations. After the first research, several categories like population distribution, civil engineering devices, geological characteristics, climate condition, oceanic condition, and industries were applied to the process of determination of location of the nuclear power plant. As a result, one of the three candidate locations, Wolnaeri-Gilcheonri, Jangan Myun, nearby Busan city was highly recommended. However, in the “Long-term electric power development planning” in 1967, original location was slightly changed into neighboring area and planned number and volume were also changed into “two

500,000 kW nuclear power plants”(Kim, S.J, 2012: 171).

**Figure 2. Locations of nuclear power plants in South Korea**



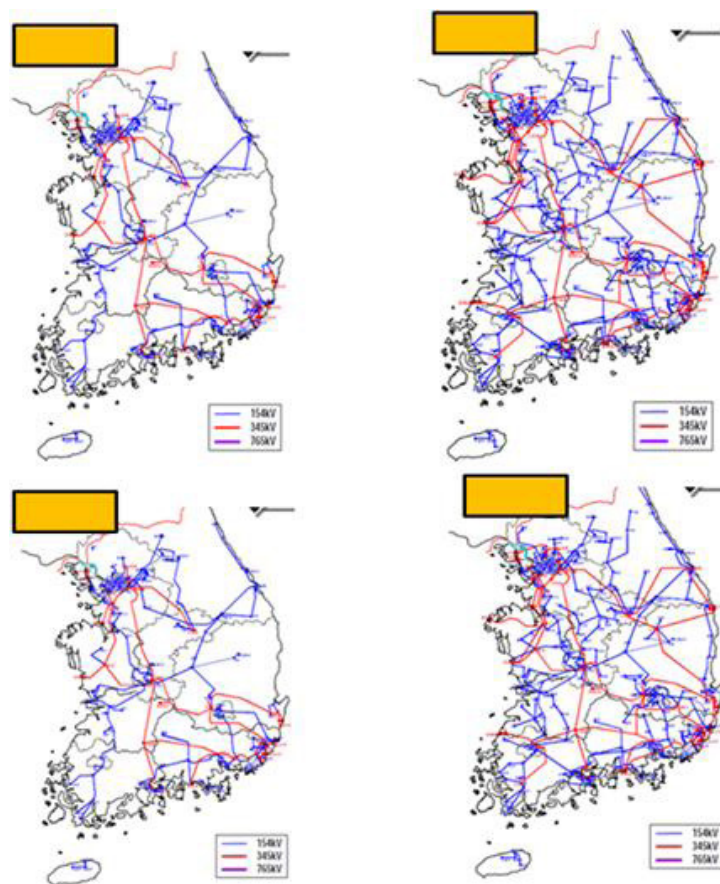
Source: Hwang, J.T. et als, forthcoming

The logical relationship among location of NPPs, national electricity connection networks, and prediction of electricity demand is clear. It means that when a location of NPP is decided, the spatial planning of electricity connection is established, with considering electricity demand prediction locally(Korea Electric Power Corporation, 2006). In 1960s, whole country was categorized into 4 districts and each district has its own demand prediction



and power supply plan. According to the ‘Long-term electric transmission facilities plan’ in 1967, Yeongnam district was predicted to have increased power demand due to industrial complexes, while Kyungin district was predicted to have less power demand due to population inflow control policy at Seoul Metropolitan Area(KEPCO, 2006: 139-140). After 1975, four districts became five, and each district had their own plans for electrical power systems. With the construction of heavy industries complexes, 154kV systems were changed to intra-regional loop system and 345kV systems were expanded to arterial system which connected power plants complexes and spots with large demand on electric power. In 1978, based on the ‘Long-term plan for arterial system(1978~1987)’, basic structure of 345kV system was completed. It connected north-south and east-west of state through 3 arterial systems(KEPCO, 2006: 160-167). (see <Figure 3>)(Korea Electric Power Corporation, 2006, 14-15).

**Figure 3. Historical change of electricity transmission networks of South Korea**



Source: Korea Electric Power Corporation(2006)

Although the locations of nuclear power plants were decided as a result of undemocratic ‘state spatial project’ of developmental state, there were grass roots local movements for the compensation of damage from the locating NPPs and claiming appropriate relocation of residential place for their survival.

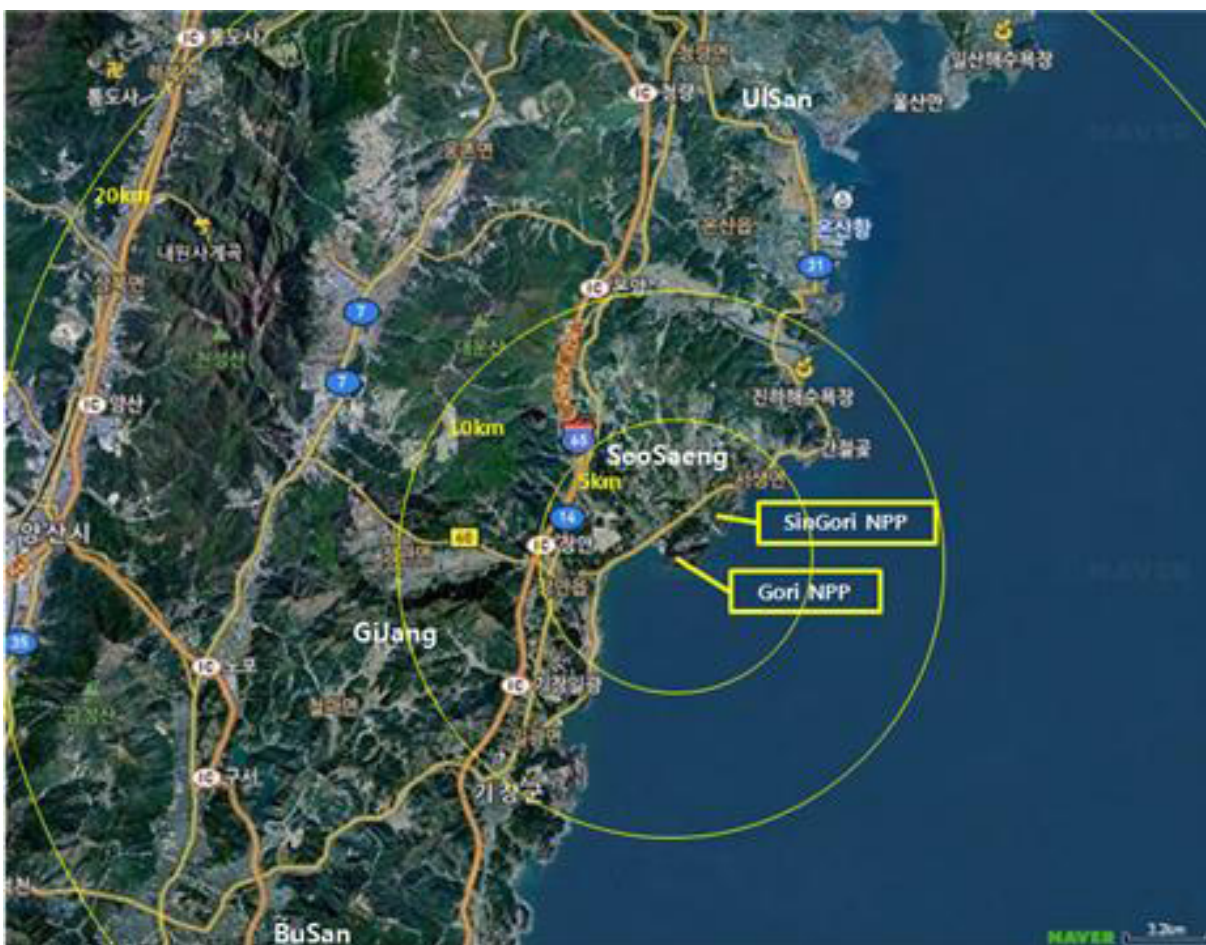
## 4. Management of Risks by Developmental State

### 4.1. Risk management and production of riskscapes in the first phase

#### 4.1.1. Gori Nuclear power plant

In 1968, small fishery village Gori of Jangan Myun of Dongrae County in Kyungnam Province was chosen as a location for the first NPP of South Korea. From 1971 to 1986, nuclear power plant complex has been established with four NPPs. In 1995 it belonged to Gijang County of Busan Metropolitan City(see <Figure 4>).

**Figure 4. Location of Gori Nuclear Power Plant**



Residents of Gori village and neighboring regions were ignorant about the NPP except the fact that Gori was chosen as the location for the NPP owing to its geological stability against natural disaster. Of course, some residents whose lands were accommodated by central government(1,250 persons, 162 households) resisted against the decision of locating the plant albeit authoritarian regime. However, negative effect of locating the plant was limited only the village people and they had to conform to the state project. Other residents in Jangan Myun understood the nuclear power plant as ‘electricity producing factory’ and welcomed it. Therefore, there were negative opinion that NPP demolished rich fishery ecosystem and positive opinion that it provided a cornerstone for modernization of country

and growth of national economy(Kim, C.W, 2003; Hwang, G, interview on 2013.4.19, Donga Newspaper, 1991.9.29).

Concerning to the impact of NPP on the regional development of the located area, there were two different recognitions. In the course of constructing the plants, residents could enjoy economic benefit from house renting and running commercial businesses for the laborers. In fact, a report says that after locating NPP, there was an affirmative impact on regional economy(Hong, J.H. et, 2010). However, after short-term civil engineering process was over, neighboring commercial zone became hollow. In long term, regional economy and regional development came to be dependent upon NPPs. In particular, low level of satisfaction and reliability to the support policies for surrounding area of NPPs, conventional lies and deception in the process of operation the plants, rent-seeking of leaders of local government had distorted the construction project and raised social conflicts among residents(Choi, S.D, 2009: 237-238, Lee, Y.A., interview on 2013.4.19).

The surrounding areas of Gori NPPs included some part of Uljoo County at first. On top of it, new NPP(SinGori) was added to NPP complex and riskscpaes are expanded across the border of administrative district. In 1995 and 1997, some part of Seosang Myun of Uljoo County was designated as location for ‘SinGori’ No. 1 & 2 NPPs. In 2000, additional ‘SinGori’ No. 3,4,5,& 6 NPPs were planned to be located at Seosang Myun of Uljoo County. Concerning to the location of new NPPs, huge social conflicts raised in Uljoo county and Busan Metropolitan City. In particular, arguing with anti-nuclear movement group, governor of Uljoo County insisted that even when there would be accident of radioactive leakage in NPPs in Gijang County of Busan Metropolitan City, Uljoo County might have damage from it. Therefore, Uljoo County should accept the ‘SinGori’ NPPs and receive compensation money from KHNP for regional development (Han, S.J, 2012: 63).

Distinguished aspect of Gori NPPs complex is to designate greenbelt around it. After relocation of village in 1971, surrounding areas of the complex were designated as greenbelt unlikely other 3 NPPs complex in South Korea. To prepare with probable accident, area within radius of 8km from the complex was designated as greenbelt. As a result of continuous appeal and petition from residents, some part of greenbelt was removed, but still it remains as symbol of restriction on basic right of people for 30 years. However, there is subtle tension between Gijang County and Busan Metropolitan City concerning to the removal of the greenbelt. While Busan Metropolitan City is inclined to sustain the greenbelt as it is, Uljoo County insists to remove the whole greenbelt as compensation for the expansion of NPPs complex to secure land for regional development.

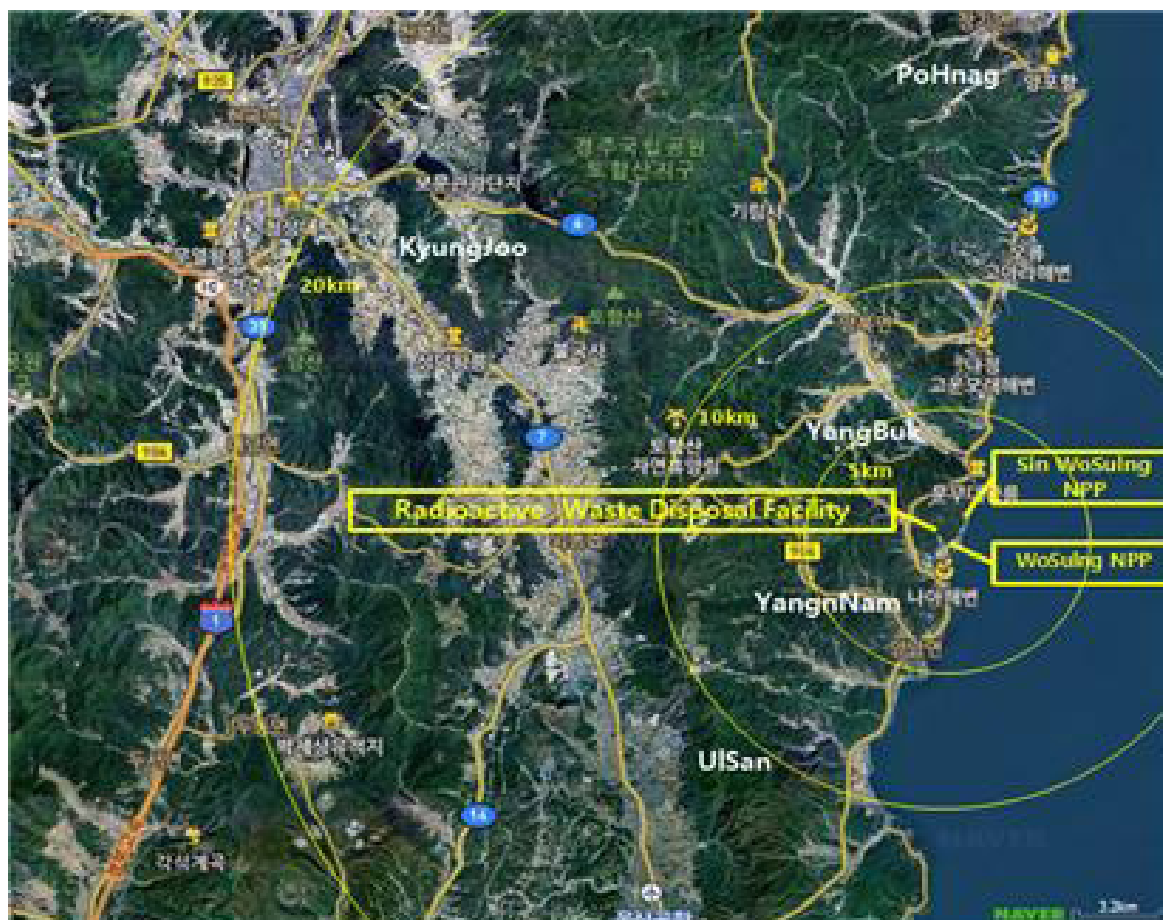
#### 4.1.2. Wolsung Nuclear power plant

In 1975, Naahri, Yangnam Myun of Wolsung County in Kyungbuk Province was chosen



for the location of the Wolsung NPP no.1. By end of 1999, 4 NPPs were built and commercial operation started. In 1995, after change of administrative district, Wolsung NPPs complex belonged to Kyungjoo City(see <Figure 5>).

**Figure 5. Location of Wolsung nuclear power plant**



Similar to the Gori NPPs complex, residents of Wolsung County had very limited information about nuclear power, in particular, its risk. They assumed that their hometown had appropriate resources for the plant, for example, affluent cooling water. Thus, there were no huge social conflict except several demonstrations concerning to the compensation.

Interesting thing in Wolsung NPPs complex is relationship between national security and NPP. Unlikely other complex, residents of Wolsung County acknowledged that NPP could produce nuclear bomb to prevail North Korea. Thus, they regarded locating NPP as significant task for national security and just accepted the state project(Lee, J.K. interview, 2013.4.20). In fact, Wolsung NPPs complex adopted Canadian CANDU type heavy-water-reactor, exceptionally in South Korea. It has close relations with the fact that ex-President Park, Jung Hee's government tried to develop nuclear weapon. With pressure from U.S., it was frustrated and South Korea became a member of NPT(Nuclear nonproliferation Treaty) in 1975(Chung, W.S., 2012: 253-264). Such an idiosyncratic feature of Wolsung NPPs complex has played an important role in producing complex riskscapes combined with national economy, national security, and risks from radioactive waste later.

As the Wolsung County was remote and underdeveloped area, high expectation on the NPPs for regional economic development existed at first time. However, evaluation about the contribution of NPPs complex to regional economy was controversial. During the construction process, regional product, income, and employment gained considerable economic benefit(Yang, K.N., 1996). However, after finishing construction work, proportion of population of agriculture decreased while retails, restaurants, and accommodation business increased(Hankyore newspaper, 1988.12.8). And intrusion of commercial capital from outside the region for the short-term gains reduced positive impact from the NPPs complex(Yang, K.N., 1996; Lee, J.K., interview, 2013, 4.20).

After 1990, when official subsidy for surrounding area of NPPs began to be provided, four plants in Gori, two plants in Yeongkwang, two plants in Uljin were operated while only one plant in Wolsung. Owing to such delay or gap, there is specific risk recognition concerning to the subsidy. The subsidy is granted according to the volume of power generation. Thus, for example of Uljin or SinGori NPP has possibility of attaining benefit from the subsidy as it has large volume of generation. However, in case of Wolsung NPP, relatively old model with small volume of generation has hardly take advantage from the subsidy while it is more dangerous than other NPP. Therefore, residents of Wolsung County sense strong unfairness and relative deprivation on the government's way of considering risk cost of NPP comparing with other complexes(Lee, J.K., interview 2013. 4.20).

In 1982, one year before the commercial operation of Wolsung NPP, news of closure the CANDU type NPP in Canada owing to heavy water leakage accident was heard(Donga Newspaper, 1982,4.23). In spite of this news, public awareness on risk of NPP was not raised. However, after series of accidents including heavy water leakage happened in Wolsung NPPs complex from 1984 to 1988(Kyunghyang Newspaper, 1984.12.29; Donga Newspaper, 1985.1.1; Kyunghyang Newspaper, 1988.10.5), collective actions took place in line with national wide anti-nuclear and compensation movement. In 1988, 300 residents of Yangnam Myun had sit-in demonstration claiming compensation and relocation to safe place(Hankyore Newspaper, 1988.11.6, 1988.12.8).

Accumulated accidents from NPPs have contributed to establish a certain framework for risk-safety of NPP nation-wide. In mid 1990s, heavy water leakage accidents also happened and KHNP tried to conceal the accidents. Although some residents revealed strong dissatisfaction against KHNP and government, overall sentiment was relatively cooperative. But, basic plan for locating SinWolsung NPP at Yangbuk Myun was established in 2000 and location of RWDS was decided at same Yangbuk Myun in 2005 after long time social controversy. Then, the riskscapes of Wolsung NPP became very complicated.

#### 4.1.3. Yeongkwang Nuclear power plant



In 1978, Gyemari village, Hongnongseup, Yeongkwang County of Jeonnam Province was chosen for the location of NPP. The first and last NPPs complex with 6 plants in western seashore was established in 2002.(see <Figure 6>)

**Figure 6. Location of Yeongkwang NPP**



Interviews with residents of Yeongkwang county revealed that they regarded their hometown had proper geological condition, and local ruling groups had affirmative attitude toward NPP while ordinary people were ignorant about it(Kim, Y.K., interview, 2013. 2.1). The case of Yeongkwang NPPs, similar to that of Uljin NPPs, took advantage of latecomer like considerable amount of compensation money for land acquisition, and residents were cooperative to land acquisition(Chae, K.S., 2002: 652; Kim, Y.K., interview, 2013.2.1). Expectation of splendid regional development through NPPs was dominant at that time(Kim, Y.K., interview, 2013.2.1).

After Chernobyl accident in 1986, Yeongkwang NPP No.1 started commercial operation and residents came to relate Chernobyl and Yeongkwang NPP in emotional way; i.e. they assumed that Yeongkwang NPP could be dangerous too. Due to the democratization movement of South Korea from 1986, social movement of compensation for the damage from NPPs locations and anti-nuclear movement were deployed. Regional coalition and national networking against nuclear power was established. During 1987-1989, there happened accident of seashore pollution from thermal discharge from NPP and workers'

exposure to radiation at Yeongkwang NPP. Then issues of malformed children and livestock surrounding areas of NPPs became firstly local and later national agenda. Thus, the recognition of “nuclear = dangerous facility” had spread throughout nationwide. After the “National Center for NPPs Expulsion Movement” was established in 1989, “National Center for Anti-Depository facility for Radioactive Waste” and “Korean Anti-Nuclear Action” were established and recently, “Solidarity Action for Nuclear Free World” succeeded to the anti-nuclear movement in South Korea.

Unlikely the early stage of construction of Yeongkwang NPPs, negative attitude toward NPP was dominant and expectation to regional development was decreased after No.3 and No.4 Yeongkwang NPP construction in 1989. In particular, negative evaluation on regional industry development, regional employment, regional income of residents was prevailed and negative impact like adverse regional image, diminish of fishery, depression of agriculture animal husbandry was getting increased(Kim, T.K et. als, 2005; Noh, B.N., interview 2013.2.19; Kim, Y.O., interview, 2013.2.20).

In case of Yeongkwang NPP, there has been political and social segregation between residents and workers of Yeongkwang regional headquarters of KHNP. It played significant role in local politics. The director of Yeongkwang regional headquarters of KHNP has been regarded as having more political power than governor of Yeongkwang County(Noh, B.N., interview, 2013.2.19). Such political and social segregation has been reflected on spatial dimension. The residential complex of KHNP with convenient and leisure facilities for the family of workers of KHNP has distinctive features and territorialized as their own space. The population and schools of surrounding area of NPP was decreased and so called ‘beehive’ houses(temporary houses for construction workers for NPP) remained obsolete while other surrounding areas of NPPs have commercial areas. Residents of KHNP residential complex went to Kwangju Metropolitan City for shopping and other things acrossed the regional border.

Ecological impact from NPP was peculiar in Yeongkwang case. The Gamami beach, one of the beautiful and famous beaches in southern part of South Korea, lost its function as leisure place due to reiteration of accumulation and dredging of sand, and low level of accessibility to main roads. Most of all, thermal discharge from NPP is the most significant issue in Yeongkwang case. One NPP with volume of 1,000 MW emits 50-60 tons per second and the temperature of emitted water is 7 Celsius degree warmer than when it was taken. Thus, thermal discharge of NPP created tremendous changes in neighboring ocean ecosystem. In particular, as western coastal area of South Korea had affluent fish-raising industries, damages from thermal discharge could be bigger than other NPP complexes(Lee, Y.J., 2011: 229-230).

Owing to the operation of Yeongkwang No.1 & No.2 NPP, the damage of oceanic ecosystem from the thermal discharge was expanded. Therefore, compensation movement against the thermal discharge damage began in 1988. While compensation for the

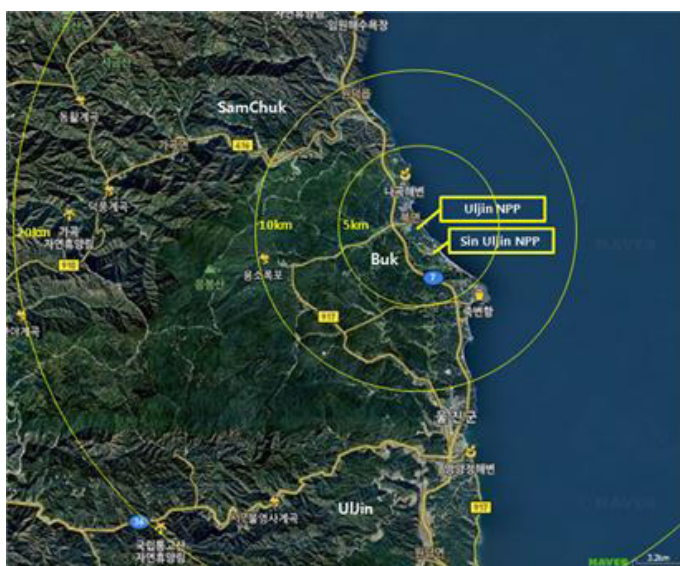
fish-raising industries(within radius 2Km from NPP) had done by the state, not for the fish-catching industry using boat. So they have claimed compensation for damage and proper measure to lessen down the damage so far. In the course of struggle, the standard for compensation has been rearranged continuously; 7.9km, 12.7km, 20.2km, 29.7km. It means that riskscape derived from NPP became extended toward south ward of Yeongkwang county(Kim, Y.O., interview, 2013.2.20; KHNP, 2008b, 275-286). Residents who support anti-nuclear movement regard that NPP-dependent regional economy hinder the development of fishery & agriculture-oriented region. Without NPP, they assume, more safe and abundant community would be possible and most of people must be accustomed to the positive image of ‘Yeongkwang Kulbi’(very popular fish in South Korea) rather than the negative image of ‘Yeongkwang NPP’(Noh, B.N., interview, 2013.2.19; Kim, Y.O., interview, 2013.2.20).

The anti-nuclear movement played significant role in producing riskscape concerning to the Yeongkwang NPPs. Against the political and historical backdrop of Kwangju massacre in 1980, there have been progressive religious groups(Catholic and Won Buddhism) and powerful social movement groups(farmers union, NGOs, people’s organizations). Under such social atmosphere, Mr. Kim, Bong Ryol, the governor of Yeongkwang county even cancelled the plan of constructing Yeongkwang No.5 & No.6 NPP in 1996. However, by the decision of ‘the Board of Audit’ judging it illegal and inappropriate, his cancellation was overturned(Chae, K.S., 2002:653-654, Hankyore, 1996, 9.18). It shows that the anti-nuclear governance had impact, to some extent, on local government but, at the same time, it reveals the lack of the capacity of local government in publicizing their concerns against state project.

#### 4.1.4. Uljin Nuclear power plant

In 1978, Buguri, Buk Myun, Uljin County of Kyungbuk Province was designated as location of Uljin NPP complex. By 2005, six NPPs were constructed and commercially operated(see <Figure 7>).

**Figure 7. Location of Uljin NPP**



Likely other NPP complexes, residents of Uljin County considered the location policy of NPP by the authoritarian government inevitable, and Uljin County was selected for appropriate geological condition. They also expressed high expectation on regional development and positively accepted the NPP complex. In particular, they were very cooperative in land acquisition and compensation due to high compensation price for the land. Therefore, relocation of residents had few conflict(Chae, K.S., 2002: 654-655; Nam, H.S., interview, 2013.4.20).

Comparing with others, Uljin NPP complex had positive impact on regional economy. The construction work of NPP has provided residents with opportunity of extra incomes like house rental business, restaurants, and other commercial activities. According to the record of KHNP, average 6,700 work forces were hired in daily basis, and around 80% of them were from outside the Uljin county(KHNP, 2008b: 299-323). As Uljin county was remote and isolated area, work forces should reside and spend money within Uljin county. Thus, economic benefit from constructing NPPs could remain in the region. Based on such experience, Uljin NPP complex imprinted positive image of NPP onto residents. However, different discourses also existed. They understood the location policy of NPP as issue of injustice. They assumed that those depressed, underdeveloped, low populated, and aged regions were selected as locations for risky facilities like NPP(Nam, H.S., interview, 2013.4.20).

Uljin county is mountainous region and villages are scattered around low hills. Accessibility to Uljin county is also very bad due to lack of roads to it. Due to lack of basic infrastructure like medical service and education, and low accessibility, work forces of KHNP avoided working at Uljin NPP complex. It led to escape of skillful laborers and increasing concerns to the insecurity of NPP. In fact, as of 2005, relatively more accidents happened in Uljin NPP complex rather than others and 60% of them derived from unskillful laborers' mistakes. Therefore, geographical condition of Uljin county contributed to producing unique riskscape of Uljin NPPs.

In spite of the risk, economic dependence upon NPP complex was not easily resolved since economic basis of Uljin was vulnerable. With this backdrop, locating policy of Sin Uljin NPP caused huge conflicts among residents. Residents of surrounding areas of NPP, in particular, trades people welcomed the early commencement of construction work of NPP expecting business boom up, while other residents reside outside of the surrounding area preferred to sufficient compensation talks expecting maximization of their compensation(Chae, J.H., 2009: 158).

The anti-nuclear and compensation movement in Uljin from 1980s to 1990s was small-scale, disorganized, and sporadic occurrence. Local government of Uljin County also was inactive to protect their residents from the damage of NPP(Chae, K.S., 2002). However, in case of radioactive waste depository location policy, Uljin residents showed strong dissent against it.



#### 4.1.5. Developmental localization of risk

As the state project of providing electricity for industrialization, NPP was adopted by developmental state. The location policy of NPPs could be understood as state spatial strategy of developmental state for risk management. In this perspective, surrounding areas of NPP complexes were produced as riskscapes. They have attributes of fixation of risk and severance of benefit from economic development. At the same time, they are networked with neighboring regions and electricity provision system too. For example, in case of Uljin NPP complex, there is no big city around it while Gori was transferred into Busan Metropolitan City and it also has Ulsan Metropolitan City as neighboring city. Wolsung county was also transferred into Kyungjoo City and Yeongkwang has Gwangjoo Metropolitan city as neighboring city.

With the advent of democratization movement, political and social factors like political orientation of the regions, historical background of the regional movement and anti-nuclear movement have impacted on the process of producing riskscapes in various way. In terms of riskscapes, risk has been territorialized(locating at specific space), and re-territorialized(expansion of NPP location site to neighboring space)(Park, 2010a). Based on such observation, four different NPP complexes and surrounding areas have been produced as different riskscapes with different temporalspatiality. For example, riskscapes of Wolsung NPP has close relations with national security; in case of Yeongkwang NPP strong social movement played important role in producing the riskscapes; in case of Uljin NPP, geographical condition(isolated and remote) has made the riskscapes more risky than other NPP complexes.

In spite of different riskscapes of the four NPPs complexes, however, South Korea as developmental state tried to localize risks from NPP within specific space and to make it invisible or hidden. It also tried to legitimize its spatial strategy under the name of national development, national security, prosperity of state or regional economic development. To some extent, it succeeded. Thus, this paper calls such state spatial strategy as ‘developmental localization of risk’. The riskscapes produced by the strategy of developmental localization of risk has similarity with the ‘space of dependence’ by the term of Kevin Cox(1998). Because actors of the riskscapes are locally dependent, and struggles concerning to the NPPs were basically territorialized and re-territorialized.

### *4.2. Risk Management and Production of Riskscapes in the Second Phase*

#### 4.2.1. Background

After the IMF crisis, neo-liberal restructuring took place in the field of electricity industry also. Thus generation sector which has been monopolized by KEPCO was divided into several companies in 2000; KEPCO take charge of transmission and electricity retail, Korea Power Exchange take charge of electricity wholesale and operation of electrical power



system, and KHNP take charge of nuclear and hydro power.

Concerning to production of riskscapes of this phase, two institutional changes deserves attraction. First of all, 'Law of protection and counter measure against radioactive disaster from nuclear facility' was enacted in 2003. According to this law, to prepare emergent accident of radioactivity, a certain surrounding areas of nuclear facilities should be designated as 'radioactive emergency planning district'. It is radius 8~10 Km of NPP(in case of RWDS, 1.5Km). However, IAEA(International Atomic Energy Agency) has 'preventive district'(3~5 Km) and 'emergent protection district'(5~30 Km). Japan also had similar district with 8~10 Km but after Fukushima accident it became 20~30 Km(National Assembly Research Service, 2012: 76-79).

Secondly, NPP was included as an object of 'tax on regional resources and facilities' in 2006. The tax is imposed on the utilization of regional resources and facilities to tackle with the external effects from use of the resources and facilities like regional ground water, generating water, thermal power generation and NPP. In some sense, it has characteristics of polluter-pay-principle and environmental taxation. With the tax, damages from NPP and thermal power generation should be relieved and welfare related facilities for the residents of the region should be expanded(Lee, S.H & Kim, J.H., 2012). Interesting thing of this taxation is the mismatch of riskscapes between administrative and expecting damaged spaces. Collecting of the tax is pursued by metropolitan government and 35% of collected tax is distributed to metropolitan city and 65% is to local cities or counties. In this taxation, riskscapes are constructed by administrative unit but, neighboring area of the unit within radius 5Km from NPP is not considered as target of the tax. Thus, such kind of production of riskscapes always excludes physically risky spaces.

Against this backdrop, following part will examine the new NPPs which are distinguished from the developmental localization of risk; RWDS conflict which has shown inter-scalar tension; transmission tower construction conflict which vividly substantialized the network of riskscapes of NPP.

#### 4.2.2. New Nuclear Power Plants

In the second phase of risk management, NPP has been considered reluctant facility and NPP was cause and result of uneven regional development. After neo-liberal restructuring recommended by IMF, riskscapes of NPPs complexes are produced with new concerns on compensation and dangerous aspects of NPP rather than its effect for the national economy and industrialization.

The event of inviting 'SinGori NPP' by governor of Uljoo County, during 1998~2000, maybe displayed significant change of 'developmental localization of risk'. Firstly, before the event, construction of NPP was regarded as agenda of national scale politics, but

case of the SinGori NPP inviting event rescaled the nuclear regime into local scale(Han, S.J., 2012). Local government with low fiscal independency strategically chosen NPP as a tool of securing finance. Secondly, Uljoo county as the periphery surrounding area within radius 5 Km of NPP and relocation site of Gori NPP, changed into central area. It means that not only it added new NPP on existing location, but also it invited RWDS nearby Wolsung and SinWolsung NPP. Therefore, there is tendency of expansion of riskscpaes.

In 2008, after neo-liberal restructuring, central government established the first 'National Basic Energy Plan' and it suggested to designate two or three new locations for NPP by 2012. In 2010, KHNP appointed several places like Samcheok City, Yeongduk County, Haenam County, Koheung County as possible locations for new NPPs. The KHNP asked each County with agreement of local council to request for inviting new NPP. However, in spite of huge economic incentive(approximately 1.5 billion USD for two NPPs), Haenam County and Koheung County denied inviting new NPP, while Samcheok City and Yeongduk County submit will of invitation of new NPPs. As referred above, Uljoo County expressed their intention to inviting new NPP without request from central government. Finally, Samcheok City and Yeongduk County(each of them will has more than four NPPs with 1,500MW) were decide for the locations for new NPPs.

In case of new NPPs, central government designated possible locations and requested the administrative unit(local government with agreement of local council) to invite them. It is quite different from old strategy which experts and bureaucrats decided locations and pursued it from top-down way. Actually since late 1970s and early 1980s, new locations for new NPP were sought by central government. However, owing to harsh dissent and resistance from residents, new NPPs were decided to be located at existing locations of NPPs(SinGori, SinWolsung, SinUljin NPP Complexes)(Maeil Kyongje Newspaper, 1994.8.20).

The cases of voluntarily effort of inviting NPP in Uljoo and decision making process of locating new NPPs in Samcheok City show neo-liberal risk management; i.e., strategic selectivity of neo-liberal development politics of local government and change of subjects and methods of locating policy of NPPs.

#### 4.2.3. Radioactive waste depository site

Since 1983, central government has examined measures for radioactive waste management. Therefore, several candidate places were chosen for RWDS; Uljin County, Yeongduk County, Yeongil County(1987), Ahnmyun County(1989). However, residents and local civil NGOs resisted against the location policy of RWDS. Recognizing the necessity of institutionalization of supporting the local administrative units, central government enacted 'Law for promotion of radioactive waste management project and support of surrounding areas' in 1994, and promised to provide approximately 50 million USD for regional development fund. Thus Jangan Eup, nearby Gori NPP complex and Giseong Myun in Uljin County expressed their will to invite RWDS. However, there happened two serious breakup pro and con on the

RWDS among residents and government gave up.

Under the Kim, Dae-Jung government, 'The nuclear commission' prepared new measure for RWDS in 1998. According to the plan, low and middle level RWDS will be constructed by 2008 and spent fuel depository site will be constructed by 2016. And as location policy for them, public contest was included. However, it turned out failure. There was no application. Then KHNP started up research project for appropriate locations for RWDS and 4 regions were selected. In 2003, central government promised approximately 300 million USD financial support and pursuit of projects like state projects, tourist industry development projects, and regional specific projects. However, there were mass rally against the designation of RWDS in candidate regions and government announced that request from any other region would be accepted.

In July 2003, governor of Buan County submitted request for RWDS by himself, despite of the disagreement of local council for the request and Buan County was chosen for final RWDS. However this decision should face full-fledged anti-RWDS movement from the grassroots and the movement lasted for 280 days. To make the things worse, during the resistance movement, government announced that not only low and middle level of radioactive wastes but also spent fuel would be added on the Buan RWDS. It evoked the anger of residents more than before. In December 2003, government tried to persuade residents of Buan County with supplementary measures like local referendum(Cha, S.S. & Min, E.J., 2006: 50-51). However, consensus was not made between government and 'anti-RWDS movement groups in Buan on contents and date of the referendum. Finally, government denied to accept local referendum by due date(13 February 2004) and 'Buan RWDS countermeasure committee' carried out independent and autonomous local referendum. It showed 70.81% of participation rate and 91.83% of them rejected the invitation of RWDS. Even though, government declared that the local referendum was not official one, locating RWDS in Buan came to be impossible.

In January 2004, government enacted 'Law for local referendum' and implemented in July same year. Then, government announced public contest with local referendum. To attain interest from residents, supporting fund of approximately 300 million USD and relocation of headquarter of KHNP were promised again by government. In 2005, 'Special law to support the region inviting low and middle level RWDS' was declared. According to the law, spent fuel depository facility is excluded and local referendum is mandatory process. In particular, the range of supporting area is not decided by distance from the RWDS but administrative district. Operator of RWDS should provide the commission charge for intake of radioactive waste to local government. Discourses on 'special support fund of around 300 million USD', 'around 8.5 million USD of commission charge per year', and 'around 4.2 million USD of expansion effect to local finance due to relocation of headquarter of KHNP' were roaming. Kyungjoo City, Kunsan City, Yeongduk County and Pohang City submitted request for invitation of RWDS. Finally, Kyungjoo City won the bidding with high rate of consent(89.5%) at

local referendum and Bonggil Ri, Yangbuk Myun of Kyungjoo City was decided as location of RWDS in 2005.

The location policy of RWDS at that time adopted regional competition system. In fact, the background and dynamics of the regional competition system have significant implication to the change of strategy by developmental state. The competition system based on dazzling amount of money for the location of RWDS as political ideology for mobilizing people, contributed to enhance the vote and consent rate of local referendum(Yun, S.J., 2006: 32-36). On top of it, 'regional innovation system' sponsored by Roh, Moo-Hyun Government contained the principle of 'regional competition system'. It made each local government adhere to state projects and the dependency upon central government was getting deeper(Cho, S.I., 2007: 250-153). The Roh, Moo-Hyun Government had emphasized 'regional even development' and 'local autonomy'. In line with this emphasis, location policy of RWDS was considered as state project for 'regional even development' and 'local autonomy'. After the failure at Buan County, they adopted competitive local referendum system and decided the location for RWDS. They evaluated it as new model for resolving social conflict and as momentum for realization of local autonomy based on grassroots democracy(Cho, S.I., 2007: 140-141). However, in reality, the decision making process of locating RWDS at Kyungjoo City commercialized(or privatized) the social conflicts. Finally, the democracy of regional society came to be diminished(Cho, S.I., 2007: 156-159).

#### 4.2.4. Electric transmission towers

The most basic factors in electrical power system plan are location of power plants and regional demand prediction. In particular, as NPPs have significant impacts on infrastructures of electrical power system, the location of NPPs has close relations with electrical power system like electric transmission facility(KEPCO, 2006: 30-37). As power generation facilities increased, transmission facilities should increase too. Social conflicts related to power generation facilities reiterated at the case of transmission facilities. In particular, after construction of 765kV transmission system to provide generated power from NPPs and thermal power plants to Sudokwon area(Seoul and its vicinity) and industrial complexes in 2002, public complaint against transmission facilities concerning to health, property, and environmental issues dramatically increased, and came to be social agenda.

The issue of 'Milyang electric transmission tower project' is now in the middle of big social dispute. The official name of the project is 'Construction project for 765kV SinGori-BukKyungnam transmission line'. In 2001, decision on locations of passing spots and environment impact assessment were launched. In 2005, the result of environmental impact assessment went through display and public hearing. Finally, in 2008, the project started. The purposes of the project are to connect generated power from 6 SinGori NPPs to national electric power system and to provide stable power to Kyungnam and Kyungbuk Provinces. The passing spots of electric transmission lines include Uljoo County, Gijang County, Milyang City, and Changnyeong City(around 90Km). The 765kV electric transmission lines



and 162 electric transmission towers will be constructed. In particular, Milyang City is penetrated by 39.15 Km of transmission line and with 69 transmission towers(Cho, S.B., 2012: 134-135).

After the cursory public hearing which did not provide residents with proper information and had no discussion, residents of Milyang City raised complaint against the project(Busan Ilbo, 2005.11.23). Local council of Milyang City also announced suggestion to central government to quit the project(Kyunghyang Newspaper, 2007.7.12). In spite of dissent from residents, KEPCO started to construct the electric transmission towers in August 2008 and collective actions of rural village residents who were over 60 and 70 years took place. The collective actions were immediately expanded to Milyang mass rally. In 2009, there were conflicts concerning to the electric transmission towers at around 70 places nation-wide and 'National Association against Construction of Electric Transmission Towers' was established.

The main issue of early stage of struggle was risk of microwave from the towers, possibility of alternatives(burial of lines under ground or increasing volume of existing lines), doubt on passing spots locating process, compensation, regional impacts(ecological system, regional economy) and so forth(Cho, S.B., 2012: 148-152; Lee, S.W & Hong, S.J., 2012: 186-199). Generally speaking, residents of Milyang City wanted not to invite towers and to make the transmission lines detour their village or take alternative ways. However, in August 2010, KEPCO accused Milyang City government and Changnyeong City government of dereliction of their duty of public browsing for public land acquisition. In October 2010, Milyang City government was forced to do public browsing and forced land acquisition came to be possible(Cho, S.B., 2012: 136-144; Eom, E.H., 2012: 78). In spite of such dynamic deployment of event, the case of Milyang electric transmission towers did not attract public attention(Eom, E.H., 2012: 75; Lee, H.Y. & Yun, S.J., 2013: 56).

However, the conflict lasted long time, 'space of engagement'(Cox, 1998) was established, which includes anti-SinGori NPPs construction movement and anti-765kV electric transmission towers movement. It means that locally unrelated actors came to be engaged and created distinguished risksapes. In fact, for long time, the issue of anti-nuclear and issues of electric transmission lines were not connected. Because, anti or post-nuclear movement groups only focused on inequality between places of generating and consuming powers and issues of radioactive waste management. They did not take full and keen interest in the issues of distribution of the powers and concrete situations on the site in dispute. However, in January 2012, the late Lee, Chi-Woo, 70-year-old man in Milyang City burned himself to death claiming resolution of the transmission towers conflict. This news spread to nation-wide and transmission tower conflict became national agenda. The isolated old people in Milyang City earned popular attention and succeeded to demonstrate the violence and undemocratic process of KEPCO. With this momentum, anti or post-nuclear movement began to combine the



anti-electric transmission towers movement and produced riskscapes at large scale. In other words, anti or post-nuclear movement groups and struggles of old people against the transmission towers both were acting in different spaces, came to encounter at same 'space of engagement' and restructured riskscapes of nuclear power in wider context.

#### 4.2.5. Neo-liberal localization of risk

The above cases of location of new NPPs, locating process of RWDS, and Milyang electric transmission towers conflict can be describe as the 'neo-liberal localization of risk'. In this phase, neo-liberal strategies for location policy of nuclear power related facilities were dominant; economic incentive, competition system, local referendum, voluntary submission of request and so forth. In this phase developmental state did not try to hide the risk or legitimize it with the terms of national security or economic development of state. It made the risk very visible and profitable. With this change of strategy, as referred above, riskscapes during this phase can be produced as 'space of engagement'. Those strategies were recognized success factor at first time, but it turned out failure. On the contrary, request of withdrawal of nuclear power generation itself has been raised.

In case of NPPs, it is quite uncertain that new NPPs will be constructed at Yeongduk County and Samcheok City. "The 6th basic plan for electric power provision" established in February 2013, postponed the final decision on the locations for new NPPs yet considering the social controversy on NPP after the accident of Fukushima.

The RWMS of Kyungjoo City was begun in 2007 but, so far, two times of extension of work duration and twelve times of changing the plans owing to unstable rocks at the site and intrusion of groundwater. Moreover, often plan change led to skyrocket of the construction fee and illegal subcontract raised the questions on safety of the construction(Kwon, S.M., 2013). The strategy of neo-liberal localization of risk is at stake.

The future riskscapes of nuclear power in developmental state will be dependent upon the result of the Milyang struggle against electric transmission towers. The struggle will also contribute to the growth of alternative discourses on transformation of hard energy system which is based on large volume of power generation plants and long distance transmission lines into soft energy system which is based on decentralized and renewable energy.

## 5. Conclusion

South Korea as developmental state succeeded in accumulation of capital and industrialization within short time. Likely economic development, risks in particular, from nuclear power related facilities were also managed by developmental state. This paper reviewed the risk management strategy with focus on its location policy. Since locating nuclear power related facilities is result of state spatial strategy and state project. Moreover, as a result of the strategy, various riskscapes have been socially produced in different manners through the

history. By scrutinizing the historical transition of the developmental state's strategies of risk management, we could distinguished them into two categories as 'developmental localization of risk' and 'neo-liberal localization of risk'.

Under developmental localization of risk, developmental state tried to hide the risks and localize them within specific space. Risks were invisible. Thus, the riskscapes produced by this strategy were basically confined in certain space with locally based actors. In this sense, such riskscapes share similarity with 'space of dependence'.

While, under neo-liberal localization of risk, developmental state tried to reveal the risks and commercialize them into competitive market. Risks were visible and commercialized. Thus, the riskscapes produced by this strategy came to be de-territorialized and networked by engagement of various footloose actors. In this sense, such riskscapes share similarity with 'space of engagement'.

If the strategy of neo-liberal localization of risk in South Korea is totally stuck on a rock, developmentalism itself has possibility of being collapsed not only in South Korea but also in East Asia. Because, in the riskscapes of South as space of engagement, de-territorialized actors across borders are already engaged especially after the Fukushima accident. Then, so-called 'sustainable state' might replace the developmental state if there is no war in East Asia.

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