

Book Reviews

Tat Yang Kong

***The Politics of Economic Reform in South Korea:
A Fragile Miracle***

London: Routledge, 2000

Jang-Sup Shin and Ha-Joon Chang

Restructuring Korea Inc.

London: Routledge, 2003

Reviewd by

Jin W. Cyhn*

Although it has been more than five years since the financial crisis in Korea, many renowned researchers have continued to analyze for its key underlying causes. The debate has continued as it has been much fuelled by ideological divisions among various schools of thought. This is a clear indication that the study of economics and economic development has yet to come to a reasonable agreement on the role of the state; and for this particular debate on Korea's financial crisis, the main, and somewhat *tiring* issue becomes: Was the crisis caused by the state intervention? To many 'mainstream' (neoclassical) economists, the crisis was an indication of Korea's 'crony capitalism' – i.e., heavy state intervention. In contrast, these two books shed a refreshing argument on this regard: that the downfall of Korea as indicated through the crisis was due to its weak state, and not a

* Asian Development Bank, E-mail: jcyhn@adb.org

strong one; and that revitalizing the state would represent the answer for the Korean economy to bounce back.

Brief summaries of both publications can be offered as the following. Kong (2000) argues that Korea's developmental state – in which there is a strong coalition among the business, politicians, and bureaucracy – has been declining and that the state has much lost its power to control the business interests. The labor unions, which have been excluded from the developmental state apparatus, became increasingly vocal and confrontational. The increasing democratization has been the leading behind this transformation, and even hints at the possibility of 'neoliberalization' of Korea. The author further argues that there have been a number of economic crisis previously, and that the role of the state as the organizer of the economic miracle of Korea has been rather fragile. In a more focused manner, Shin and Chang (2003) argues that the crisis was caused by the reduced mediating role of the government – based on decline in developmental state and increasing influences of globalization. The authors argue that what is needed in Korea is not to convert to the neoclassical economics – but revitalization of the state.

In reviewing and learning from their arguments, three questions remain. First, was the developmental state as effective as indicated? The readers will get an impression that in the developmental state era of the 1970-1980s, Korea was a much more efficient economy – and only when it began to become more liberalized, the problems arose (thus, this marks an indirect, but nevertheless an important criticism of neoclassical economics). As Kong sometimes refers but never fully analyzes, the Korean economy faced a number of crises – why couldn't the developmental state prevent them? If we can agree with Kong that there have been important similarities among the crises of the past, then could one argue that the crisis of 1972 was also due to lack of developmental state or violent labor unrests? Surely not. Second, what has been impact of politics behind economic policy apparatus? It can be suggested that simply categorizing the 'crony capitalism' as one of counter-balancing corruption is not sufficient, as political needs – which, by

definition – are adaptive and evolving, especially with changes in the leadership. Thus, it is difficult to understand Korea's embedded political economy as autonomous, as both Kong as well as Shin and Chang seem to suggest, since policies have been much captured by 'money politics' as well as other concerns (readers will only have to look at the Kia Motors, Hanbo Steel, and to some extent, Samsung Motors to find the examples). Then, the transaction costs in maintaining close coordination between the state and business may not be as low as indicated. Finally, what is the appropriate role of the state? Simply monitoring the capital account, as Shin and Chang emphasizes, is not sufficient – when dealing with the causes of the crisis – but may be needed is credit allocation (or what Shin and Chang calls 'capital control') of the past era. When considering the past legacy – as well as the current international economic system – one wonders if this would be an effective policy tool.

Thus, the dilemmas of these publications also correlate to the one as mentioned earlier in the study of economic development about the appropriate role of the state. Clearly, Korea's state did intervene heavily in the economy (altering firm behavior) – it may have contributed to the miracle, as Shin and Chang argue, but it also led to crony capitalism that led to the financial crisis as well. Furthermore, it failed to intervene when it was perhaps more necessary to do so – mainly in macro-economic/capital account management. In meanwhile, as Korea has undergone democratic transition, which has been reviewed in-depth by Kong, it has regressed its role as the consensus-builder and mediator. The combination of these factors may have resulted in crony capitalism/market distortions that have been warned by many, including the Washington Consensus – led by various researchers as Anne O. Krueger and Paul Krugman. In recognition of the current political-economic scandals, it remains to be seen how Korea will deal with this task.

Both Kong as well as Shin and Chang conclude by challenging the readers to find an alternative model for development for a post-newly industrializing country like Korea. In fact, this seems to be an important task for economics

in general. In this, some past key components of the Korean miracle may yield good sources, although they are not extensively analyzed in the publications. They include human capital, stable (although Korea was also repressive) political environment, outward-orientation (including favorable hosts for foreign investments), and macro-economic stability. Through this discussion, the role of the private sector (regardless of whether they should be chaebols or small and medium-sized enterprises) as the leading force behind Korea' miracle needs to be reminded again.

In conclusion, both Kong as well as Shin and Chang provide readers with in-depth analyses of the Korean economic paths, and present strong explanations of 'what went wrong' – although an important difference may be that Kong has argued that Korea's political economy has always been vulnerable, while Shin and Chang argue that the recent decline of the state intervention was the root-cause of the crisis. These publications represent an important contribution to the field, although a more balanced literature review, especially adding the recent works of M. Woo-Cumings (on why developmental state has declined) or D. Kang (on political economy of crony capitalism) could have strengthen the arguments.