PERSISTENCE OR CHANGE?

EVOLUTION OF THE KOREAN DEVELOPMENTAL STATE

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State-led developmentalism has attracted the attention of comparative political economists, as well as policy makers who search for a more effective way to compete in globalised markets. In particular, the developmental state of the Republic of Korea (hereafter, Korea) has been an archetype and test case for the effectiveness of state-led developmentalism under globalisation. Neoliberals hold that the developmental state in Korea no longer works in the era of globalisation. Even some developmental statists, including Kim (2014) and Shin and Chang (2003), maintain that the Korean developmental state cannot work due to the dissolution of policy instruments following financial and trade liberalisation. Yet many institutionalists of comparative political economy argue for the persistence of the Korean developmental state (Witt 2014; Kim *et al.* 2008a; Chu 2009; Hundt 2005; Thurbon 2016; Thurbon and Weiss 2019; Weiss and Thurbon 2020; Yoon 2012).

Does the developmental state no longer work in the era of globalisation? Does liberalisation mean the retreat of the state? As a test case, has the Korean developmental state been dismantled and changed to a neoliberal 'free-market' system? Or does it persist in its original form?

By analysing the evolution of Korean state-led capitalism, this paper holds that Korean capitalism maintains its state-led developmentalism, rather than retreating from its earlier state leadership and opting for a more hands-off approach. The Korean state is still growth-oriented and uses its selective industrial policies to improve its corporations' international competitiveness, reflecting upon the economic national rivalry. However,

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this paper emphasises that, in contrast to the institutionalists' emphasis on path dependency, the continuity of state-led developmentalism in Korea is due neither to remaining institutional legacies of old-style developmental state, nor to Koreans unreflexively taking the developmental state for granted. Rather, Korea's state-led developmentalism has continued due to key actors' significant efforts to adapt their practices and institutions to the changed context of international market competition. We will examine how Korea's state-led developmentalism has been sustained through changes in its existing growth strategy, for instance, from input-oriented to innovation-oriented development, and from a traditional method of mobilising and funneling massive capital into a few corporations to a new developmentalism of nurturing innovative capabilities and building innovative networks. The continuity of state-led developmentalism is not exclusive of changes, but is due to its changes.

The primary data presented here include extensive personal interviews with key people in government, government-affiliated research institutes, lead firms, and Korean trade associations. Preliminary interviews were conducted from May 2010 to March 2011, with deeper research from April 2013 to June 2016. Interviews include 28 individuals in government and government-affiliated research organisations, 27 in private companies, and 17 in trade and labour associations. This paper also uses extensive quantitative data from the Organisation for Economic Cooperation and Development (OECD) and government reports, as well as comparative economic literature.

This paper first critically reviews prevalent views related to changes in the Korean economic development model, and presents theoretical alternatives. It then studies where recent changes in the Korean developmental state fit into the taxonomy of capitalism from a comparative perspective. Finally, we examine how the Korean developmental system has been reconstructed through intentional changes in strategies and policy governance. In the conclusion we ask what the story of the changed developmental state of Korea may imply for a more avowedly neoliberal state such as Australia.

Critical review of prevalent theories

This section critically examines the two dominant views – the dismantling of the developmental state and the persistence of the developmental state of the late twentieth century – regarding the evolution of the Korean development model, and suggests alternative arguments.

The first of these views, the demise thesis, holds that the Korean developmental state has been dismantled and has changed to the post-developmental-cum-regulatory state, as proposed by neoliberals, proponents of the old-style developmental state, and Marxist-oriented globalists (Jayasuriya 2005; Ji 2011; Painter *et al.* 2019; Pirie 2008). Neoliberals maintain that the developmental state does not work in the era of globalisation and has retreated. Although proponents of the developmental state, along with Marxist-oriented scholars, evaluate the developmental state differently, they agree that Korean capitalism has changed to a neoliberal free-market system through liberalised trade, finance, and labour markets. In particular, they focus on the liberalisation of finance, accelerated in the mid-1990s, and the dismantling of state policy instruments such as control over banks (Ji 2011; Pirie 2008). In addition, many proponents of global production networks hold that as domestic firms, nurtured by the state, become mature and globalise, state-led developmentalism lost its effectiveness and capability to discipline private firms (Yeung 2016; Wong 2011).

However, these ‘disorganisation’ views overlook the state’s new methods and functional equivalents of the old to implement strategic industrial policies. The Korean state maintains many instruments for industrial policy, including policy funds, tax incentives, and subsidies. More importantly, the Korean state has changed its developmental strategy from the classical method of mobilisation of massive capital and labour to a new developmentalism promoting knowledge-intensive and innovation-oriented systems. For that changed strategy it has not needed traditional methods, such as direct control over banks and exclusive allocation of credit to a few large corporations. In addition, contrary to the proponents of industrial maturity thesis that the developmental state (DS) is effective only in its early catch-up phase, the maturity and high uncertainty in the high-tech industries do not necessarily diminish the state’s active role in upgrading its industrial competitiveness (Thurbon and Weiss 2019). By adopting new methods for developmentalism, such as nurturing decentralised innovative networks, the Korean state continues its active role in developing industrial competitiveness even in high-tech and high-value industries, rather than retreating and opting for a more hands-off and regulatory approach.

On the other hand, many path-dependency institutionalists argue for persistence of the developmental state, underestimating significant changes in Korean capitalism in the last thirty years. Whereas proponents of the demise thesis focus on destruction of authoritarian means and policy instruments, proponents of its persistence emphasise the continuity of state-led growth-oriented policies, interventionist institutional structure, developmental coalitions with *chaebols*, and the persistence of a taken-for-granted developmental mindset (Witt 2014; Walter and Zhang 2014; Yoon 2012; Thurbon 2016; Lim and Lee 2009; Kim *et al.* 2008a; Chu 2009; Hundt 2005; Kim 2012). These latter views tend to overlook recent changes and key players' significant efforts to adjust to changed contexts in the Korean developmental regime, such as financial liberalisation and changes in developmental strategy and governance. To refute the convergence theory, these path-dependent institutionalists emphasise 'sticky' institutions' resistance to change as reasons for continuity of the developmental state.

In regard to financial liberalisation, Lim and Lee (2009) argue that despite formal changes in the financial system, Korea continues to operate much as it did in the past. They insist that the Bank of Korea's independence is insufficient and the state's influence over the financial sector continues through the Financial Supervisory Commission. Kim (2012) notes that industrial policies continue despite the dismantling of the Economic Planning Board (EPB), a key pilot economic planning agency. Witt (2014) also observes that the Ministry of Finance and Economy and the Ministry of Strategy and Budget, divided in 1998, were reintegrated into the Ministry of Strategy and Finance in 2008, signaling the reunion of finance and budget planning (Witt 2014: 216-9). Many persistence theorists note that the Korean state maintains the upper hand over private actors even after democratisation (Witt 2014: 219, 231; Kim *et al.* 2008).

Fields (2014) argues for the 'stickiness' of institutional legacies and resistance to change to account for the persistence of the developmental state. He holds that '[in] all three cases [Japan, Korea, and Taiwan], path dependencies have prolonged the life of the DS' (Fields 2014: 60), despite the challenges of globalisation and financialisation. However, in each instance (Japan, Taiwan and Korea),

> *sticky institutional* arrangements constituting the respective DS [developmental state] have proven difficult to dislodge, even in the face of unprecedented economic crises, recessions, long-term structural changes, and prevailing global norms […] *Path dependency,*

> *institutional inertia, vested interests*, and no small degree of rational retention have kept Japan's DS relatively coherent in spite of increasing calls for change and significant remodeling. Likewise […] both parties [Korea and Taiwan] continued to benefit from their collaborative ties and institutional networks binding them together (Fields 2014: 48-9; emphasis added).

However, the continuity of Korea's state-led developmentalism has been realised through key actors' significant efforts to adapt and change their developmental practices in order to meet new challenges of globalisation and evolving international competition, as we explore below. Continuity and changes are complementary, not mutually exclusive.

Continuity in Korean capitalism

Regarding the extent to which Korean capitalism had changed since the 1990s, to better account for changes and continuity we emphasise a historical-comparative perspective on the evolution of the Korean developmental state. Based on the comparative political economic literature, we use conventional broad classifications of national economies, such as the Anglo-Saxon liberal market economy, the European corporatist coordination system, and state-led capitalism.[1]

A key criterion to differentiate these types of national economic systems is the type of state intervention in economy – whether a neutral and regulatory state, or strategic interventionist. In the sense of ideal types, the neoliberal state, focused on the playing field, is more neutral to private actors in the market. The developmental state is more likely to strategically target specific industries. Thus, the DS demise proponents point the rise of the regulatory state as evidence of DS demise, as Levi-Faur says:

> The age of the rise of the regulatory state, so the argument goes, is therefore the age of the decline of the positive-developmental state. The rise of the first and the decline of the second, it is now widely held, are in turn causally associated with the rise of neoliberalism and the belief

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[1] This classification is relatively old-style and may be too broad to explore detailed changes. Nevertheless, it is understandable to various comparatists and serves our case of compatible coexistence of changes and continuity. This typology presents ideal types in a Weberian sense, rather than reality itself.

> in the superiority of markets as mechanisms for maximizing the public good (Levi-Faur 2013: 239).

Demise thesis proponents state that the Korean government has strengthened its neutral regulatory role by liberalising banks and strengthening the free market system, rather than pursuing strategic state intervention (Jayasuriya 2005; Pirie 2008). In comparative political economic literature, adjustments in liberal market economies, such as the United States and the United Kingdom, are left to market competition, while the state limits its role to legal regulation and forgoes its strategic and selective intervention in the economy. Neoliberal states use more general and horisontal policies available to all players in the market, while DS industrial policies are more selective and vertical, targeting specific firms and industries (Schmidt 2002: 121-2; Hall 1986: 250; Hall 2015: 426-7).[2]

Comparatively speaking, it is difficult to acknowledge that Korea has shifted to a liberal market economy in light of its strategic and selective intervention, although not in an authoritarian form. Even in the course of liberalisation and globalisation, the Korean state continues to guide the direction of national economic development by providing a national development plan and strategically targeting specific industries, as explored below.

It is also difficult to acknowledge that Korea has transformed into a corporatist regime despite the rise of labour's voice, because the public status of labour remains weak in Korea compared to Germany (Katzenstein 1987: 58-82). In the standard literature in comparative political economy, the corporatist coordinated capitalism of Germany and the Nordic countries relies on horisontal negotiation among labour, capital, and sometimes the state, while the Anglo-Saxon market system relies on market competition (Hall 1986: 235-6; Schmidt 2002: 122-3, 125-6).

Organised labour in Korea did not achieve such parapublic status in the process of public policy decision-making as in European corporatism, where labour and capital regularly participate in public policy formulation.

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2 Horizontal support in industrial policy includes measures that are common to all the citizenry, including education and basic R&D, without selectivity among sectors or individual firms. Vertical policy includes measures that support a specific sector or an individual firm, with some justifications for such selectivity, including economies of scale, spatial externalities, or national growth engine (Buigues and Sekkat 2009: 5-6, 30-3, 87-8).

The Tripartite Commission (*Nosajungwiwonhwoi* in Korean), which began in the Kim Dae-jung government, still has no practical power despite its formal role (Kim 2010: 254-5). Although Korean labour could have improved its organisational power since democratisation, its public voice has failed to be recognised in public policy decision-making (Lee 2009; Whitley 2016: 43). In Germany labour achieves social recognition by actively contributing to the process of proposing and implementing constructive solutions to national economic crises and enhancing national competitiveness. In Korea, labour has been excluded from important decision-making at the national, industrial, and even enterprise levels; labour focuses on advancing its organisational interests rather than presenting an alternative vision for the creation of national wealth (Kong 2012; Kim 2010; Witt 2014).

Korean capitalism still qualifies as state-led capitalism although it has changed from a traditional authoritarian DS to an enabling state focused on nurturing decentralised and innovative networks among private actors. The Korean state still strategically intervenes in the economy through selective industrial policies, although methods and governance have changed. To examine the state's role in Korean capitalism in detail, we now explore two dimensions of state-led capitalism: the state's strategic development policies and its capacities.

Developmentalism in state policy

Despite significant changes in its intervention methods and instruments, the Korean state maintains a strong developmentalism to strategically coordinate private actors and improve national economic competitiveness. Its policies pursue long-term national interests and remedy occasional economic crises.

Since the 1990s, Korea's planning agencies have changed significantly, in some cases merging or being dismantled (Carney and Witt 2015: 548-9). The Economic Planning Board (EPB), regarded as an icon of the old Korean developmental state, was dissolved in 1994. Korea officially abolished its selective industrial policy with the *Industrial Development Act* in 1985, and ceased national economic planning at the end of the 7th Five-Year Economic Development Plan (1992-1997). Nevertheless, the roles of pilot agencies were transferred to other ministries. The Korean government merged the EPB with the Ministry of Finance (MoF) to form the Ministry of Finance and Economy (MoFE). In addition, many mid- to long-term policies for each industry now are made and implemented by ministries including the Ministry of Trade, Industry and Energy (MoTIE), the Ministry of Science and ICT (MoICT), and the Small and Medium Business Administration (SMBA). These economic agencies, including MoTIE, MoICT, and SMBA, have developed detailed and long-term industrial development programs, including the Industrial Technology Development program (1987), the Leading Technology Development program (1992), the New Industry Promotion Strategy (1999), the Special Law for Promotion of Parts and Materials (2000), the Next Generation Growth Engine Promotion program (2003), and the Korean New Deal program (2020). Many of them remain active.

The Korean state – not individual market actors nor labour and civil society – discerns problems and presents solutions, considering the entire national economic and industrial system in the context of changing international competition. The Korean state has initiated various industrial development programs to upgrade the national economy's competitive capabilities. For example, the Korean government initiated transformation of its economic strategy, from nurturing a few national champions in final assembly products to upgrading innovative capabilities of parts and materials and building an innovative ecosystem. This transformation was accomplished during the 1997 Asian financial crisis, not by free-market private actors but by the state's intentional programs in which the Korean state addressed a chronic trade deficit,[3] and upgraded its industrial capabilities.[4]

In contrast to Mexico, which abandoned industrial policies in the liberalisation of trade and finance since the mid-1980s (Heredia 1996; Moreno-Brid 2013), Korean liberalisation of trade and finance has yielded more state-led development plans and policies. For example, since 1997 the Korean government has continuously played a strategic role in shaping a national development plan and monitoring private actors to improve national competitiveness. The Kim Dae-jung administration (1998-2002) and subsequent governments have made significant efforts to encourage

[3] Korea had been in trade deficit from the 1960s to the mid-1990s because the import of parts and materials increased more rapidly than the export of final products did.

[4] Personal interview with former director of Ministry of Industry and Energy, 17 June 2015; interview with director general of Ministry of Trade, Industry and Energy, 26 May 2015.

strategic industries to adapt to the challenges from the liberal opening of trade and finance markets. The Kim Dae-jung government also crafted many development plans, including the Five-Year Plan for Improving SME (small- and medium-size enterprise) Technology in 2000, and the *Special Act for Promotion of Parts and Materials* in 2001. Subsequent governments, including the Roh Moo-hyun (2003-2008), Lee Myung Bak (2008-2013) and Park Geun Hye administrations (2013-2017) created similar long-term industrial development plans. For example, the Roh government initiated the Next Generation Growth Engine Development Plan in 2004, which became the New Growth Engine Development Policy during the Lee and Park governments. In particular, *the Special Act for Promotion of Parts and Materials*, established in October 2001, was extended another ten years to 2020, to construct a competitive national economic system.[5]

The Korean state's strategies and methods have significantly changed. Traditionally, the Korean state focused on mobilisation of massive amounts of capital, funneling them through its control of banks to a few corporations exclusively to realise economies of scale. Now the Korean state focuses on nurturing innovative capabilities and an 'industrial ecosystem' for a knowledge-based and innovation-oriented economy. Thus, in contrast to classical developmentalism, the current Korean state uses research and development (R&D) policy supports to build innovative networks which include more actors, rather than excluding many SMEs in allocation of credits.

Some scholars note that even neoliberal states, including the U.S. and UK, use R&D policies (Lee *et al.* 2004: 27-8). However, Korean R&D policy focuses more on commercialisation, and is targeted selectively at strategic industries, rather than focusing on more basic sciences at some remove from market competition. For example, while R&D support in the U.S. focuses on public research institutes and universities, Korean R&D support goes directly to companies which commercialise their research. In addition, the Korean government's support targets mainly strategic industries such as ICT and auto. Thus, economic development has accounted for approximately 50 percent of the Korean total R&D budget as of 2011, while in the U.S. the largest share of the budget is for health

[5] Personal interview with director at Ministry of Trade, Industry & Energy, 4 April 2015; interview with director general at Ministry of Trade, Industry and Energy, 10 June 2015.

and environment, at 60 percent, while economic development stands at about 15 percent (Ministry of Science, ICT and Future Planning and Korean Institute of S&T Evaluation and Planning 2012, 2015).

The state's capacities

Does the Korean state have the capacity or the means to carry out its developmental policies? Proponents of the demise thesis of Korean developmentalism focus on the state's loss of institutional capability to control banks and allocate credit to strategic companies—a key institutional foundation of Korea's old developmental state. However, those institutional bases supported a specific form of growth strategy, which focused on mobilising massive capital to nurture a few national champions. However, as the national growth strategy has changed from input-oriented to innovation-driven, authoritarian control of banks and massive mobilisation of capital may no longer be needed. Further, exclusive allocation of capital to a few large corporations no longer serves developmentalism; rather, it is arguably counterproductive to the idea that development can and should be built on SMEs' innovative capabilities and collabourative networks.

The Korean government still has the institutional capabilities necessary to implement this new developmentalism, such as government subsidies, policy finance, and tax benefits. According to the *2012 OECD Factbook,* Korea's economic development expenditures in its national budget are set at 40 percent as of 2010,[6] much higher than the OECD's average of 14.2 percent, as well as those of other OECD members such as neoliberal and corporatist countries including Germany (17.5%), Finland (12.6%), Sweden (10.7%), the U.S. (6%), and the UK (5.2%) (OECD 2012).

The Korean government still mobilises policy funds for economic development through public financial institutions such as the Korean Development Bank (KDB), at approximately 25 percent of total bank loans in 2012, higher than those of other countries (such as Japan at 11%),

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[6] According to the Classification of the Functions of Government (COFOG), the OECD divides central government expenditures into ten functions: general public services; defense; public order and safety; economic affairs; environmental protection; housing and community amenities; health; recreation, culture and religion education; and social protection (OECD 2012).

except for Germany (25%) (Thurbon 2016: 169). Even in the course of liberalising commercial banks and financial markets, Korea still used public financial institutions for its developmentalism. From 1987 to 1997, the Korean government's spending for industrial development, mobilised by the Industrial Development Fund, amounted to 1.2 trillion won. From 1998 to 2007, the Industry-based Fund invested 4 trillion won to upgrade the industrial structure and policy programs for balanced regional development and for industrial cooperation. Government subsidies for promotion of parts and materials, a representative industrial policy, amounted to 1.5 trillion won by the year 2000 (Yoon 2012: 214, 216, 130). Public subsidies for parts and materials development are worth hundreds of billions of won each year. In 2015, the Ministry of Trade, Industry and Energy (MoTIE) targeted development of innovative capabilities of material and parts companies by allocating more than 600 billion won to the Materials and Components Policy Division (Ministry of Trade, Industry and Energy 2015).

Another key instrument for industrial policy is taxation. Tax benefits are an indirect means of attracting corporate investment. The Korean government strategically uses diverse and comprehensive corporate tax credits, which have more specific industrial goals than in other countries. According to the Ministry of Strategy and Finance's *Tax Expenditure Report*, the corporate investment tax credit, which was worth 394.7 billion won in 1998, increased more than fivefold to about 2 trillion won in 2007 (Kim *et al.* 2008b). The temporary investment tax credit system in Korea allows the government to deduct the investment tax by presidential decree if this is deemed necessary for economic control. Here the state can adjust the amount of tax deductions as well as provisions relating to the object of investment from a minimum of 6 percent to a maximum of 10 percent. Interestingly, the Roh Moo-hyun administration, known to pursue policies against the *chaebol*, implemented a wide range of growth-oriented measures, including selectively expanding the limit of the temporary tax credit (Yoon 2012: 219-20).

However, do current Korean state public subsidies work to guide and coordinate private actors to follow industrial policies? In fact, Korea has successfully transformed its economic system, from traditional, input-oriented developmentalism based on mobilisation of massive amounts of capital and low wages, to high-value-added and innovation-oriented developmentalism by encouraging private companies to participate in collaborative research consortia and innovation networks. Private companies participate in the state's R&D consortia, even with small-amount R&D incentives, not only because they receive public subsidies, but importantly, because they can develop innovation networks for current technology development and so remain competitive in the market. Korean companies participate in publicly-initiated research networks and maintain close relationships with national industrial policy agencies and research institutes because these networks provide technology trends and have the potential to expand collabourative networks for future programs.[7] The director of a midsized company that supplies core components to Samsung Electronics reports succinctly why they are interested in participating in the public consortium and expanding their research networks:

> Once we have done a policy project, they give us information when there is a new policy project related to our company. The national research institutes and related organisations have a lot of information on companies like us. So, when the government plans to localise some technology, it sends a letter to the related companies to propose that they localise the technology. In the government programs we cannot suggest what we will do, but the government usually presents ideas and we play a role in realising them. This is the case with the UHD development project we are doing now.[8]

These kinds of state-led research consortia are key to developing an innovation-oriented economy in Korea. As early as the late 1980s, the Korean government pursued large-scale national R&D projects to engage major companies in strategic industries, including semiconductor and IT industries, with high investment risks. A typical case is the development of CDMA technology, a mobile communication technology of the early- and mid-1990s (Jho 2007: 633-9). Thereafter, the Korean developmental state has expanded its consortia networks, including SMEs, to focus on nurturing intermediate components and developing the industrial ecosystem for innovation.[9]

In sum, the Korean state has sufficient capacities and has played an active role in nurturing innovation capabilities of strategic industries by initiating and coordinating research consortia and industrial networks. Korean

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[7] Personal interview with general manager at an automobile parts company, 11 November 2015; interview with section chief at an electric parts company, 29 October 2015.

[8] Interview with managing director at an electronics parts company, 12 November 2015.

[9] Personal interview with ETRI executive researchers, 18 April 2014; ETRI 2012, 52-68.

capitalism maintains the characteristics of state-led capitalism, in terms of economic intervention based on the state's strategic industrial development, various policy instruments, and expanding developmental alliances for state-initiated research consortia.

Continuity through change

We now explore in greater detail how the characteristics of Korean state-led capitalism have continued through serious changes in developmental strategy and governance.

Changes in developmental strategy

State-led capitalism has been confirmed by its successful economic growth. Through state-led capitalism, Korea has achieved a high rate of long-term economic growth, from the 1970s to the 2010s. From 1971 to 2012, Korean economic growth averaged 7.1 percent annually, outpacing the U.S., Japan, and Germany, as well as Asian developing countries including Taiwan and Hong Kong (Kim 2017b: 96). However, long-term economic growth is achieved not by the traditional DS, but through changes in the strategies of Korean developmentalism. These changes have allowed Korea to sustain the effectiveness of its state-led developmentalism.

The traditional Korean developmental state focused on nurturing national champions in the assembly industries to compete in international markets. In order to realise economies of scale, the state actively mobilised domestic and foreign capital, funneling it exclusively to a few large corporations through its control of banks and credit rationing. At the same time the authoritarian state provided relatively docile low-wage labour to compete internationally. By this traditional developmental strategy, the Korean state built national champions to export final products to world markets. But in doing so it repressed the democratic organisation of labour, and deterred development of SMEs which were excluded from the state's allocation of credit.

Korea's developmentalism has changed from being centered on final assembly of products by large conglomerates to parallel development of SMEs for parts and materials, although labour has still failed to achieve the parapublic status seen in Nordic corporatist countries. SMEs have led the growth of the Korean economy in this century, in contrast to the mid-1990s when export competitiveness of SME parts suppliers (-27.7) was significantly lower than that of automakers (92.9).[10] According to a 2012 Korean government report, Korean parts and materials industries upgraded their international competitiveness, significantly increasing their trade balance from US $2.7 billion in 2001 to $77.9 billion in 2010, a growth of twenty-nine times. The share of parts and materials in Korean total exports rose from 41.2 percent in 2001 to 49.1 percent in 2010, leapfrogging from 10th ranking to 6th in world market share, surpassing Italy and France (KIET 2012: 1-65).

Why has Korea turned from its existing pattern of industrial development centered on final assembly? Particularly, why has the Korean government shifted its industrial policy from nurturing national champions in final assembly industries to developing parts and materials industries and developing its industrial ecosystem? The Korean government began to reflect upon the problems of existing developmental strategy centered on final assembly industries. Due to unbalanced industrial development, in which large corporations in the assembly industries grew rapidly while parts suppliers did not, Korea had to expend foreign exchange to import more intermediary parts and materials from Japan, as large corporations in the assembly industries exported more.[11] The Korean government recognised the severity of this problem during the financial crisis of the late 1990s. It aimed to reverse its trade deficit of parts and materials with Japan, while changing the fundamental industrial structure by promoting its parts and materials industries. A former deputy director of Industrial Planning at the Ministry of Industry, who was a main drafter of the Special Law for Parts and Materials in 1999-2000, recalls the Korean state's turning point in industrial policy:

> Facing the financial crisis, we began to think, the existing growth model based on final assembly industries by large corporations might be problematic. Of course, in the past, we were concerned with the trade deficit with Japan when Japanese yen values were up and down […] Although we had an idea to promote parts and materials in the past, the

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[10] Export competitiveness = {(export-import) / (export + import)} x 100. See table 3-1 in Park and Kim (1997: 30).

[11] Three personal interviews with former and current directors at Ministry of Trade, Industry & Energy on 10 April 2015; 27 May 2015; 17 June 2015; former Vice Minister of Knowledge Economy Department on 22 May 2015.

> idea was not so effective. However, in the crisis, gaining the president's support, we began to think it over more fundamentally. As we used the phrase 'paradigm shift' in the first draft, we thought over not just import substitution of parts but more importantly, globalisation of parts and materials industries. We thought they had to lead the industrial development when the assembly industries faced the limits of growth.[12]

Korean economic departments began to recognise the limitation of the existing growth strategy based on capital accumulation since the 1997 financial crisis. With that crisis, considering the massive insolvency of Korean corporations resulting mainly from capital concentration and input-oriented growth strategy, the Korean government began to change to a more high-value-added and innovation-oriented economy in order to continuously grow, reducing the technology gap between Korea and advanced countries. Advanced countries, including the U.S. and Japan, had reinforced nationalistic protection of technology since the mid-1980s. In addition, due to the rise of the developing economies of China and East Asia based on low-wage development, Korea's existing growth strategy, based on imported technology from advanced countries and domestic low wages, no longer worked. The Korean government began to emphasise independent development of technology and innovation (Kim 2007: 262).[13]

To improve innovation capabilities in major industries, the Korean government increased R&D expenses from 79 billion won (0.25% of total government expenditure in 1991) to 17.6 trillion won in 53,493 R&D projects (6% of government expenditure in 2014). Key government industrial departments now allot the major portion of their expenditure to R&D support programs. For example, in 2014, the Ministry of Science, ICT and Planning spent about 6.0 trillion won, or 48 percent of its total expenditure on R&D support; Ministry of Trade, Industry and Energy (MoTIE) 3.2 trillion won, or 43 percent of its total expenditure; and the Small and Medium Business Administration 9 trillion won, or 31 percent

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12 Personal interview with a former deputy director at the Ministry of Commerce Industry and Energy on 26 May 2015.

13 The 2007 KDI report suggested that 'as the capital growth rate slows down, we have no other ways except to increase the total factor of productivity to keep our economy growing. As Korea's technology gap with that of advanced countries narrows, the only alternative is improvement of endogenous innovation capabilities' (Kim 2007).

of its total expenditure (Ministry of Science, ICT and Future Planning and Korean Institute of S&T Evaluation and Planning 2015).

For industrial policy, Korean R&D programs are a key means to selectively target strategic industries, rather than spending universal and basic science. For example, since the 1990s, the Ministry of Trade, Industry and Energy (MoTIE) has supported future high-tech industries most notably through the G7 project, the Next-Generation Growth Engine, and the New Growth Engine Support Project. The K-ICT Nine Strategic Project, the main policy program of the Ministry of Science, ICT and Future Planning (MoICT), selects and supports nine strategic technologies such as software, contents, IoT, Big Data, cloud, 5G, and UHD, to which a total of 1.3 trillion won was allocated in 2016. As of 2016, the Industrial Growth Engine Project for Creative Economy in the Park Geun-hye administration (2013-2017) aims to realise 2 trillion US dollars of trade in 2020 by supporting 13 growth engine technologies to upgrade flagship industries and creating a new industry ecosystem. The project consists of 13 programs for promotion of similar strategic industries, including materials and components, autonomous vehicles, wearable smart devices, smart bio production systems, and supercritical CO_2 generation systems. Korean administrations since 2000, across different political ideologies, have supported the R&D activities of private companies and focused on building an effective ecosystem in which private companies, government-funded research institutes, and universities collabourate to develop industrial capabilities (Kim 2007: 267). Without such changes in developmental strategies, Korea cannot sustain its economic growth and the effectiveness of its state-led capitalism.

Changes in governance

Changes in developmental strategy have required a new governance system to keep the state’s developmentalism effective. This section examines how Korea was able to continue its characteristic state-led capitalism by changing its governance system.

In the past, the Korean developmental state was an authoritarian *dirigisme* state, in that it relied on the state’s direct ordering of development without an autonomous network between public and private sectors, as in Japan. In the 1970s, Korea's developmental state exerted direct command by vertically controlling specific enterprises through monopolistic mobilisation of foreign and domestic capital based on control of state-owned banks. Korea's traditional developmental state was unique. For example, the Korean state regulated the size of factories and the specifications of products to be developed in the private sector (Kim 2017a: 106-43).

However, the authoritarian *dirigisme* of the traditional Korean developmental state has changed since the 1990s into a more inclusive and horizontal governance system, similar to Japan's, with the expansion of private participation in the whole process of forming and implementing industrial policy. The process of policy formulation, decision, and enforcement no longer depends on the discretionary order of 'the supreme ruler', but on a legal and institutional framework. In the course of formulating and implementing policy, the Korean government has established a co-governance or 'governed interdependence' system that engages all relevant stakeholders in industry, government-affiliated research institutes and academia, and government (Weiss 1995; Thurbon and Weiss 2019). Policy enforcement is a continuous feedback process, where the state neither dictates a goal unilaterally, nor enforces the achievement of the goal. If a problem occurs, the policy enforcement agency and the enterprise solve the problem together.

The most important feature of the former policy governance system in authoritarian Korea was its reliance on president-centered top-down policy decisions, excluding official decision-making bodies such as the Cabinet Meeting and the Ministers' Meeting of Economic Affairs. Systematic and competent bureaucracies such as the Ministry of Commerce and Industry (MCI) and the Ministry of Finance and Economy (MoFE) served only to enforce decisions made by the president or his nearest staff officials. Therefore, differences of opinion between the ministries were addressed vertically by the president (Ha 2006: 142-54; Jeong 1987: 509-16). However, the closed, one-sided, and arbitrary form of policy formation in the traditional Korean developmental state no longer works.

Korea has been democratised and its decision making has become legally institutionalised. More importantly, as the Korean economy became more advanced and complex, and as the growth strategy changed to nurturing innovative capabilities, the state needed private actors' innovative initiatives and mutual collabouration among large and small companies. Government agencies implementing developmental policies became more inclusive, in order to gather more information for industrial policy. Thus, in the 1980s, the Korean state built many public research institutions, such as the Korea Institute for Industrial Economics and Trade (1981), Korea Institute of Energy Research (1986), Korea Labour Institute (1988), and Korea Economic Research Institute (1987). To narrow the technology gap with advanced countries, the Korean government also began to build public R&D institutes for industrial technologies, including the Korea Institute of Science and Technology Policy (1987), Korea Institute of Electrical and Electronic Engineers (1985), Korea Institute of Machinery and Materials (1986), Korea Institute of Electrical and Communication Engineers (1986), and Korea Institute of Science and Technology (1986). After the 1990s, more government-funded research institutes were established as Korean developmentalism focused on nurturing innovation capabilities.

The Korean government also developed the public-private consortium and 'governed interdependence' system to engage all relevant stakeholders for development of specific industries. This process of establishing and implementing policies has led to a shift in direction of the so-called 'private-led' economy. For example, in the early 1980s, the Electronic Industry Development Initiative, led by the Office of the Presidential Secretariat, gathered businessmen, experts from academia and research institutes, government officials, and presidential secretariats to present and discuss alternatives and solutions (Jeong 2003: 122-9). This initiative illustrated a new process of policy making that involved broad participation of the private sector, sparking a broader change in the process of establishing industrial policy. The Korean government dissolved the Economic Planning Board (EPB), icon of the traditional developmental state, in order to decentralise its governance system.

More important for sustained effectiveness of industrial policy, the decentralised governance system, as seen in the research consortia, has expanded to the micro level since the 1990s because Korean developmentalism needed more detailed information about complicated industries and private actors' initiatives. In the decentralised research consortia, close collabouration between government and the private sector enables continuous feedback between policy enforcement agencies and companies to solve problems together in a nonauthoritarian way.

For example, an evaluation committee for public research projects guides multiyear state-funded R&D tasks. If technology in the process of being developed is evaluated as losing marketability, the participating companies raise the targeted technology level or speed up technology development. If the company experiences difficulties in technology development, it can receive technical assistance from government-affiliated research institutes. In a personal interview, a director of the public Technology Promotion Agency describes the evaluation process as follows:

> For example, if you have a three-year assignment, you will be assessed each year, and your performance target will be adjusted as market conditions change. The [performance target] is changed by the evaluation committee. At first we offer a Request for Proposal (RFP). Then, in the first year, we usually follow the RFP, and in the second and third years, if the market situation changes, then the evaluation committee suggests, for example, 'Japan has already developed this technology. We should raise the target or shorten the period.' The evaluation committee does not merely evaluate based on financial profits or such things, but rather judges whether the technology to be developed can be sold in the market.[14]

At the micro level, the state-sponsored research institute is adjusting the direction of national technology development and resetting the goals. Ongoing interactions between state and enterprises in the policy enforcement phase provide critical feedback for future industrial policies that can be tightly integrated with private industrial sectors. Rather than simply subsidising corporate R&D, the Korean state initiates and coordinates the process within collective research consortia. The Korean state can identify which companies belong to which strategic industries and their level of technology, thus establishing new policy programs under mid- and long-term industrial visions. At the same time, the state is a key actor in the innovation network for technological advancement. The state encourages companies to participate in and develop the state-coordinated innovation network.[15] Through adoption of this new governance system, Korea continues the effectiveness of state-led capitalism.

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[14] Interview with general director at Industrial Technology Promotion Agency, 4 June 2015.

[15] Personal interview with general manager at an automobile parts company, Nov. 10, 2015; interview with managing director at Korea Association of Machinery Industry, June 24, 2015.

Conclusion

In the ongoing debate concerning the change of the Korean developmental state, which began seriously in the late 1990s, the dominant scholars – both neoliberals and old-style developmentalists – supported the demise thesis that the Korean developmental state was dismantled and transformed into a neoliberal free-market system. However, Korea has continued its state-led capitalism, as can be seen through the lens of comparative political economy. Although the Korean developmental framework has seen the abandonment of previous policy instruments and the transformation of governing industrial policies into a more comprehensive and democratic form, that framework still reflects state-interventionist capitalism, rather than neoliberal market capitalism. The Korean industrial innovation system continues to be coordinated by the state and the state leads selective technology development programs. The Korean state maintains selective industrial policies, expressing development direction for the entire national economy. In addition, the Korean state has sufficient institutional capacities to attract corporate participation in policies through financial support such as policy finance and tax benefits, as well as by forming and coordinating innovation networks.

Continuity of state-led capitalism in Korea is due to significant efforts to change strategies and to adopt new governing institutions to meet new challenges in the face of changing international competition. The prevalent views regarding the evolution of the Korean developmental state, whether those of proponents of the demise thesis or of institutionalists emphasising path dependency, assume that institutional changes and continuity of state leadership are mutually exclusive. Rather, such continuity in the case of Korea has relied not on absence of changes in institutions but on their being adapted and adjusted. Korea was able to maintain state-led capitalism precisely because it successfully changed its growth strategy from input-driven to innovation-based, and has successfully created a new governance system to nurture an innovation ecosystem.

This paper has presented an interpretation of developments in the Republic of Korea that have frequently been represented, in the context of what seem to many commentators to have been great advances by neoliberalism, as the demise of the developmental state of the late twentieth century. Neoliberal ideologues have boasted widely, in Australia not the least, that they have achieved a shrinkage in the size of the nation-state and a withdrawal of the state from intervention in the economy. This article has argued otherwise. In Korea, developments in this century can be shown overall to be changes in the state and not diminishments. Nor is the endurance of Korea's state-led capitalism a sign of vestigial *dirigisme* or simply the result of stickiness in the institutions of the political economy. If the argument that the developmental state persists in Korea – albeit after some remodeling – is persuasive, analysts of other states, such as Australia, may wish to reexamine the *reshaping* of state involvement in the political economy. The Australian state is no longer a developmental state, yet it is not a neoliberal state either. State involvements in recent decades reflect the hijacking of the state by special interests in competition to disarticulate components of the economy. Yet the state can be reshaped so that, like Korea's state, it is able to achieve its national purposes.

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