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# Korea's Recovery since the 1997/98 Financial Crisis: The Last Stage of the Developmental State

THOMAS KALINOWSKI

In this article, I challenge the view that Korea's successful macroeconomic recovery from the 1997/98 financial crisis was the result of market-oriented reforms and International Monetary Fund (IMF)-prescribed structural adjustments. I show that the recovery was mainly achieved by the 'traditional strengths' of the pre-crisis development model, resting on export orientation and strong state capacity, rather than a transformation into a new 'neoliberal' state. However, I also show that economic liberalisation and market reforms undermine state capacity and restrict a proactive and developmental role of the state. In short, the successful recovery was the last stage of the developmental state in Korea.

The article is organised as follows. In section one, I provide a critical review of the relevant literature on Korean post-crisis restructuring and present my argument in more detail. In section two, I show that the main contributor in stabilising the economy and replenishing foreign currency reserves was Korea's exports, and not the process of regaining foreign investors' confidence through market opening and financial liberalisation. In section three, I illustrate the importance of state intervention for the economic recovery of Korea and, in section four, I argue that this state capacity is a product of the Korean developmental state, which has slowly been undermined by market-oriented reforms. I conclude in section five that Korea's successful recovery has been based on the two pillars of export orientation and state expansion, which face internal and external limitations, making a similar strategy unviable for other countries and even for potential future crises in Korea.

## **Korea since 1997: restructured or remodelled?**

The IMF, World Bank and the majority of economists praise Korea's successful recovery from the 1997/98 financial crisis as a result of the strong commitment of the Korean government to depart from previous interventionist government policies and restructure Korea into an open market economy with an efficient regulatory state. In this view, the role of the state is reduced to providing a framework

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The official IMF position can be found in the Executive Board assessments. For example, the assessment of the IMF Executive Board in the 1999 Article IV Consultations. IMF, 'IMF Concludes Article IV Consultation with Korea', Public Information Notice (PIN) No. 99/115, <http://www.imf.org/external/np/sec/pn/1999/pn99115.htm> (accessed 18 March 2008). The IMF country reports and the large number of staff working papers offer a background analysis of the official view, which highlights the role of market reforms in economic recovery. See for example, IMF Staff, Staff Report for the 2004 Article IV Consultation (Washington DC, 2005), or look at the book edited by former IMF representatives in Seoul: David Coe & Se-Jik Kim (eds), *Korean Crisis and Recovery* (International Monetary Fund, 2002).

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Linda Weiss, 'State Power and the Asian Crisis', *New Political Economy*, Vol. 4, No. 3 (1999), pp. 317-42; Elizabeth Thurbon & Linda Weiss, 'Investing in Openness: The Evolution of FDI Strategy in South Korea and Taiwan', *New Political Economy*, Vol. 11, No. 1 (2006), pp. 1-22.

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Theda Skocpol, 'Bringing the State Back In: Strategies of Analysis in Current Research', in Peter B. Evans, Dietrich Rueschemeyer & Theda Skocpol (eds), *Bringing the State Back In* (Cambridge University Press, 1985), p. 16.

Evans, *Embedded Autonomy*.

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Former IMF director Horst Koehler proposed that 'the close cooperation between Korea and the IMF over the last few years has been exemplary and in many respects serves as a model for other countries.' (IMF, News Brief No. 01/82, 22 August 2001, <http://www.imf.org/external/np/sec/nb/2001/nb0182.htm>) (accessed 29 September 2008).

The reforms that were agreed upon, starting with the first letter of intent dated 3 December 1997, can be accessed at: IMF, Korea country page, <http://www.imf.org/external/country/KOR/index.htm> (accessed 29 September 2008).

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Based on data from the KOSIS database of the Bank of Korea, <http://www.bok.or.kr> (accessed 30 May 2008).

Thurbon & Weiss, 'Investing in Openness'.

See Asian Development Bank statistics, <http://www.adb.org> (accessed 19 November 2007).

Korea's GINI coefficient increased significantly from 0.283 in 1997 to 0.310 in 2004. This is the third most unequal distribution of income in the OECD, with only Mexico and the USA showing greater disparity. (See Joong Ang Ilbo, 25 February 2005, and National Statistical Service, Annual Report on the Household and Expenditure Survey, Seoul (various years)).

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The share of people who said that 'democracy was always preferable' dropped from 69 per cent in 1997 to 49 per cent in 2001/02. On the other hand the share of people who said that 'authoritarianism is sometimes preferable' increased from 20 to 33 per cent in the same period of time. See Asia Barometer Project, Korea Barometer Survey, several years, <http://www.koreabarometer.org> (accessed 29 September 2008).

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