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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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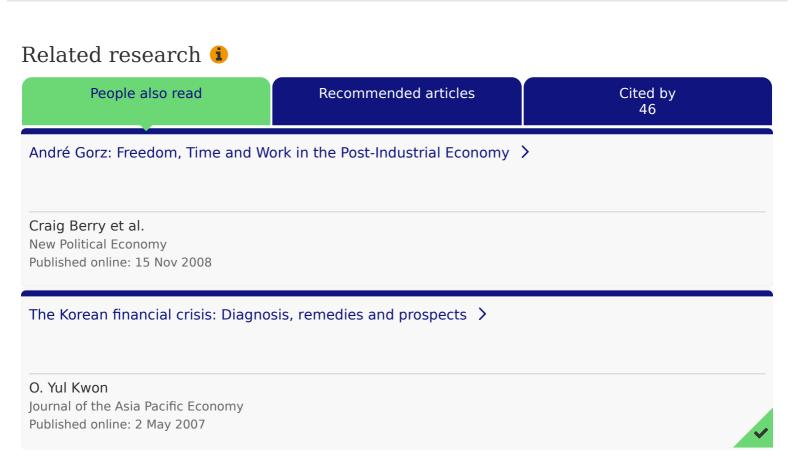
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