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**Toward People-centered Development:
A Reflection on the Korean Experience**

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Abstract

By reflecting upon Korea's state-led development, its socio-economic consequences, and its current reform efforts and trends, this article calls for reconstructing the state and redefining the identity of its political economy towards people-centered development. Crafting a democratic and empowering *dirigisme* and institutionalizing democratic values such as public trust and rule of law constitute the nation's pressing task in its quest for a good society. However, *dirigiste* choice of growth over equity at an early stage of development process may not be easily reversible at a later stage. *Dirigiste* development and undemocratic governance create entrenched, self-sustaining interests and structures that no amount of reform politics as usual can touch.

Key words: South Korea, People-centered Development, Empowering State, Small Business, Developmental State, Globalization and Inequity.

JEL classifications: G28, L52, L60, N25, O14.

Introduction

One key source of this article's critique of the way Korean¹ development has been interpreted by developmental state theorists such as Johnson, Amsden, Wade and Evans² is the notion of people-centered development.³ In particular, Evans attributes the successes of the East Asian developmental states to what he calls "embedded autonomy," which assumes the presence of Weberian rational, professional and autonomous bureaucracy.⁴ However, Korea's political power holders wielded tight control over the highly-politicized state bureaucracies, and the Korean state and its bureaucracy's embeddedness remained essentially exclusionary in favor of the big business conglomerates, known as *chaebol*⁵ and not nearly inclusive of the general

¹ Korea means South Korea, unless otherwise noted.

² Chalmers Johnson, *MITI and the Japanese Miracle*, (Stanford: Stanford University Press, 1982); "Political Institutions and Economic Performance," in Frederic Deyo, ed., *The Political Economy of the New Asian Industrialism*, (Ithaca: Cornell University Press, 1987); Alice Amsden, *Asia's Next Giant*, (NY: Oxford University Press, 1989); Robert Wade, *Governing the Market*, (Princeton: Princeton University Press, 1990); Peter Evans, *Embedded Autonomy: States and Industrial Transformation*, (Princeton: Princeton University Press, 1995).

³ This work builds on Hun Joo Park, "Between Development and the State: Recasting South Korean *Dirigisme*," *Asian Journal of Political Science*, Vol. 12, No. 1, (June 2004).

⁴ Evans, *Embedded Autonomy*.

⁵ No other societal interest group has developed to match or check the power and influence of Korea's *chaebol*, the top five of which account for over one-third of GNP. A rather vast literature exists on the *chaebol*, including Leroy Jones and Il Sakong, *Government, Business and Entrepreneurship in Economic Development*, (Cambridge: Harvard University Press, 1980); Seok Ki Kim, "Business Concentration and Government Policy," Ph.D. diss., Harvard University, 1987; Eun Mee Kim, "From Dominance to Symbiosis," Ph.D. diss., Brown University, 1987; Kim Yung Ho, *Kwankwon Kyongje T'ukhye Kyongje* [State-run Economy Preferential Economy], (Seoul: Chungam, 1989); Richard Steers, *The Chaebol*, (N.Y.: Harper, 1989); and Dong Sung Cho, *Hankuk Chaebol Yongu* [A Study of Korean *Chaebol*], (Seoul: Maeil

society or small business operators.⁶ The consequent elite collusion, which had apparently laid golden eggs, became increasingly entangling over time, deeply underlying the pathologies of Korea's top-down, centralized and undemocratic statism.

The negative effects of such a diseased *dirigisme* or undemocratic, collusive system of state-led development – with a highly *chaebol*-oriented economy and a very weak small business sector⁷ – included the Korean political economy's inflexibility, instability, weak social cohesion and disempowered people.⁸ Amartya Sen defines development not merely in terms of level of industrialization, modernization or gross domestic product but as increased capacities of ordinary citizens, which entail their free

Kyongje Shinmunsa, 1990); Park Se Kil, *Hankuk Kyongjeeui Ppuriwa Yolmae* [The Roots and Fruits of the Korean Economy], (Seoul: Tolpegae, 1991); Yoo In Hak, *Hankuk Chaeboleui Haebu* [An Anatomy of Korean *Chaebol*], (Seoul: Pulbit, 1991); Seoul Economic Daily, *Chaebol kwa Kabol* [*Chaebol* and the Family Clique], (Seoul: 1991); Chung Pyong-hyo and Yang Young-shik, *Hankuk Chaebolpumuneui Kyongjepunsok* [An Economic Analysis of the *Chaebol* Sector in Korea], (Seoul: KDI, 1992); Seok-jin Lew, "Bringing Capital Back In: A Case Study of the South Korean Automobile Industrialization," Ph.D. diss., Yale University, 1992.

⁶ See Hun Joo Park, "Small Business in Korea, Japan, and Taiwan: *Dirigiste* Coalition Politics and Financial Policies Compared," *Asian Survey*, Vol. 41, No. 5, (September/October 2001).

⁷ Unless otherwise noted, the terms small businesses or small and medium enterprises (SMEs) used interchangeably in this article denote manufacturing enterprises with no more than 300 employees in Korea, albeit with some exceptions allowed since 1992 for labor-intensive industries. While the official definitions of small business of other countries even in the same Northeast Asian region are not exactly the same as Korea's, most of their statistical publications on SMEs are actually based on the number of a firm's regular employees, which make international comparison possible.

⁸ See Hun Joo Park, "After *Dirigisme*: Globalization, Democratization, the Still Faulted State and Its Social Discontent in Korea," *The Pacific Review*, Vol. 15, No. 1, (2002).

and open participation in the political, economic and social realms.⁹ John Rawls posits that “all social values . . . are to be distributed equally unless an unequal distribution of any . . . is to everyone’s advantage.”¹⁰ However, Korean *dirigisme* has failed to put the human dignity and value of ordinary citizens as its primary purpose.¹¹

This article examines how Korea’s fundamentally undemocratic and exclusionary mode of statism threatens the nation’s long-term socio-economic health and lays out what people-centered development entails, calling for a reconstruction of the state in accord with redefined goals in society.

Some Consequences of Diseased *Dirigisme* in Korea

Developmental dictatorship is the antithesis of people-centered development, and Korean *dirigisme* carried with it a flawed authoritarian rule. The Korean development experience was top-down, state-led, militaristic and results-oriented, where dictatorial suppression of open dialogue and dissent was justified in the name of political stability and economic growth.

⁹ A. Sen, *Development as Freedom* (NY: Alfred A. Knopf, 2000).

¹⁰ J. Rawls, *A Theory of Justice*, (Cambridge: Harvard University Press, 1971), p. 62.

¹¹ I find Korean *dirigisme* in the early 1960s more justifiable (even though the origins of the *dirigiste* disease can be traced back to this “soft authoritarian” period), but not so at all after 1969 when President Park changed the constitution to eliminate the term limit of the presidency.

Korean developmental state selected a rather small number of big entrepreneurs who carried out developmental orders as agents of the state in return for privileged access to investment credits and oligopolistic, if not monopolistic, licenses. Such an elite collusion between the *dirigiste* state and the politically-connected big businesses harmed equity, democracy, social cohesion, and thus the people's ability to take the initiative and innovate or form viable civil society.¹² The central problems of such a developmental statism lie in the absence of independent outside checks, public accountability, and inclusion of ordinary citizens and civil society in both the policymaking and implementation processes.

The legacy of the principal-proxy nexus between state and *chaebol* persists and is a key factor underlying Korea's 1997 financial crisis and the debilitating public resentment, cynicism, and distrust that strain the social fabric and bog down state efforts at reform or reconstruction.¹³ Despite developing an impressive array of fair trade laws and policy tools to relax the concentration of economic power since the early 1980s, for instance, the share of the five largest *chaebol* in manufacturing sales and

¹² Korea during the development decades sacrificed efficiency as well; it was only after the early 1980s that many economist-reformers began to emphasize efficiency as the key standard for marketization and liberalization.

¹³ See Hun Joo Park, "After *Dirigisme*: Globalization, Democratization, the Still Faulted State and Its Social Discontent in Korea," *The Pacific Review*, Vol. 15, No. 1, (2002).

value-added in 1995 was 26 and 27 percent, respectively.¹⁴ The share of monopolies and oligopolies in Korean manufacturing as of 1990 also remained extremely high at 81 percent of number of products and 64 percent of total sales volume.¹⁵ The often coinciding interests of state power holders and the domestic market-dominant *chaebol* limit the reform of these oligopolistic structures. One glaring consequence of Korea's collusive state-*chaebol* nexus is the underdevelopment of small business.

Given the state's tight control of credit flows, SMEs with relatively low asset bases have been historically prone to bankruptcy, which remained a hot issue in society.¹⁶ Still far more problematic from the perspective of industrial structure was that Korean *dirigisme* resulted in an abundance of petty firms and a dearth of healthy medium-sized corporations. As of the early 1990s, petty manufacturers with 1-19 regular employees made up 82 percent of all SMEs, while medium-sized firms with 50-299 employees

¹⁴ Lee Jae-hyung, "The Current Status and Performance of Korean Business Groups," Ph.D. diss., Sungkyunkwan University, (1997).

¹⁵ Cha Dong-se and Kim Kwang-suk, eds., *Hankuk Kyongje Pansegi* [The Half Century of Korean Economy], (Seoul: KDI, 1995), p. 397.

¹⁶ Although the number of bankrupt firms in Korea continued to decline after the early 1980s, for instance, it tripled to 10,769 in 1992 from an annual average of 3,500 in the late 1980s. The number of bankruptcies stayed at 9,502 in 1993. The Ministry of Trade, Industry, and Energy (MOTIE)'s classified internal reports, October 1994. See also Kim Dae Sik, *Chungsokiop Chiwonkumyung Chedowa Chongch'aekeui Munjejomkwa Kaesonpangan* [The Problems of and the Ways to Improve the Financial System and Policy for Small Business Support], (Seoul: The Small Business Research Institute, 1995).

constituted only nine percent.¹⁷ Yet, petty manufacturers accounted for less than nine percent of aggregate sales and of value-added by small manufacturers.¹⁸

The collusive state-*chaebol* nexus, whose operation remained largely exclusive of the ordinary citizens, has led to widespread corruption, public cynicism and resentment, weakened social cohesiveness, and a significant increase in inequality in the nation's distribution of wealth over time. Though Korea has kept its Gini coefficient relatively low, that indicator of income distribution has inadequately reflected both the true and the subjectively perceived state of inequity in the society.¹⁹ Although systematic data are hard, if not impossible, to get access to, one should look at the distribution of financial or real estate assets to get some real sense of the nation's inequity issue. In 1990 the top 1.3 percent of the population owned 76 percent of total stock value,²⁰ and "[t]he top 1 percent owned 44 percent of total land value in 1988; the top 10 percent, 77

¹⁷ Korean Federation of Small Business (KFSB), *Chungsokiop Hyonhwang* [The Current State of Small Business], (Seoul: KFSB, various years).

¹⁸ Kim Chung Soo, *Chungsokiopui Kyongyong Chonryak* [Strategic Management of SMEs], (Seoul: Daehan Kumyung Kyongje Yonguso, 1993, p. 298.

¹⁹ Although worker wages did significantly increase even during the 1970s, for instance, the problem of their maldistribution across different sectors, sizes of firms, and regions of the country was severe. See David Lindauer et al, *The Strains of Economic Growth: Labor Unrest and Social Dissatisfaction in Korea* (Cambridge: Harvard Institute for International Development, 1997); Joung-Woo Lee, et al, "Hankukeui Punbaemunje" [The Problem of Distribution in Korea], *KDI Policy Studies*, Vol. 20, No. 1, (1998). As a result, even in 1985, 13 percent of male workers and 64 percent of female workers earned income below subsistence level. Il-Chul Kim, *Hankuk Sahoiwa Chaekujohwa Kwajong* [The Korean Society and Its Restructuring Process], (Seoul: SNU Press, 1988), pp. 313—314.

²⁰ Korea Stock Exchange, *Chusik* [Security], (July 1991); *Securities Statistics Yearbook*, (Seoul, various years).

percent. Land values between 1974 and 1989 appreciated at an estimated rate that was three times as fast as real [GNP], and in some years the resulting capital gains exceeded total GNP growth.”²¹

After the onset of democratization in the late 1980s, President Roh promised to build two million housing units to improve the nation’s welfare, and the total housing stocks have more than doubled since then to 12 million units by 2002. However, what was arguably the most important source of wealth accumulation in Korea was never evenly distributed. During the period from 1995-2000 alone, for instance, three million new units were added to the existing housing stock, but the number of home-owning households hardly increased: from 53.3 to 54.2 percent during the same period.²² It was so because the great majority of the newly-built units also went to families who already owned homes.²³ Home ownership remains a particularly thorny social issue in Korea partly because of the shortage of publicly leased housing units, a mere 2.4 percent of the entire housing stock. Most of those who do not own a home live under informal, rental market arrangements and suffer from tenure insecurity.²⁴

²¹ David Lindauer et al., *The Strains of Economic Growth: Labor Unrest and Social Dissatisfaction in Korea*, (Cambridge: Harvard Institute for International Development, 1997), p. 5.

²² Korea Housing Corporation, *Chugo Pokji Paekso* [White Paper on Housing Welfare], (Seoul, 2002).

²³ Ibid.

²⁴ Ibid.; Moon-Joong Tcha, *Chutaeksijang Punsokkwa Chongch’aekkwaje Yongu* [An

From the standpoint of the poor and the ordinary citizens, the problem is not just that of housing shortage or excessive housing cost, but also that of poor housing quality. As of 2000, for instance, 23 percent of the nation's housing stock was rated as below the minimum requirement for appropriate housing; eight percent (or 1.1 million households) of all households lived in a cramped one-room living arrangement.²⁵

From Entangling Embeddedness to People-centered Development

Reconstructing the state and thereby crafting a democratic *dirigisme* constitutes Korea's pressing task in its quest for a good society that respects the human dignity of ordinary citizens. Democratic *dirigisme* requires institutionalizing a transparent and accountable public policymaking process. Such reconstruction of the state does not in any way eliminate national sovereignty; it may just transform the means and purposes of the nation-state without weakening or withering its capacity. The reconstructed state can and does play a positive role in transforming state-society relations, providing social safety nets, empowering financial institutions, inventing a vibrant civil society and actively building democratic institutions to allow for orderly bottom-up changes.²⁶

Analysis of the Housing Market and Study of Policy Issues], (Seoul: KDI, 2004), p. 354.

²⁵ Even if one excludes one-person households, 730,000 households lived in a one-room dwelling. Ibid., p. 346.

²⁶ Jonah Levy, *Tocqueville's Revenge*, (Cambridge: Harvard University Press, 1999).

The key lies in how to forge what mixture of state and market. Especially in the Northeast Asian statist context, where the public continues to look to the state to redress their grievances, democratic *dirigisme* can be as robust an alternative as the neoclassical economics paradigm for people-centered development. In an effort to help recast the goals and means of the Korean state, the following section briefly looks at the way it has tried to restructure the country's financial sector since the 1997 financial crisis.

Top-down statist regimes notoriously lack the capacity to flexibly and incrementally adapt their goals and priorities to the changing external environment. Their actions are cumbersome and frequently headlong by nature, but if they could reset national priorities, the follow-through is frequently effective. Korean authorities have indeed been incredible in ramming through formal institutional changes and some marketization measures. Since the outbreak of the 1997 crisis, the government has allocated over 160 trillion *won* to restructure financial—especially banking—institutions, clean up balance sheets and recapitalize them with public funds, but there are limits to what top-down *dirigiste* reforms can achieve.

The government's restructuring efforts have progressed the most in the financial sector, and in the process two characteristics stood out. First, in part because the government has thus far focused its restructuring efforts on the commercial banks, and

in part because the end of the government's implicit guarantees in the wake of the crisis resulted in relatively diminished capital markets for such direct financing instruments as commercial papers and corporate bonds, the banks regained their prominence in the financial system. For instance, the banks' assets grew at a far greater pace than those of other financial sectors: The average asset size of commercial banks jumped from 33 trillion won to 58 trillion *won* between 1999 and June 2004, while that of securities companies grew only from 1.2 to 1.3 trillion *won*, and that of insurance firms from 3.6 to 4.5 trillion *won* during the same period.²⁷ Also, the importance of the stock market as a source of corporate funds drastically went down from its peak of 41 trillion *won* in 1999 to 14 trillion *won* in 2000 and to 4 trillion *won* in the first half of 2004; the share of the stock market in providing funds for small businesses in particular fell to 0.5 percent by 2003 from an already low figure of four percent in 1999.²⁸ Second, foreign investor influence also became most prominent in the financial industry. As the government denationalized the banks, foreign investors gained managerial control of three of Korea's eight city banks: Korea First, Foreign Exchange, and KorAm Bank. On average, as of February 2004, foreign investors controlled over 51 percent of stocks

²⁷ Samsung Economic Research Institute, "Korea's Financial Industry under Structural Change," www.seri.org, Nov. 20, 2004.

²⁸ *Hankyoreh*21, December 9, 2004, pp. 22-33.

of all commercial banks in Korea.²⁹

While the thrust of the government's financial restructuring efforts has generally been towards its liberalization and marketization along the lines of the United States or the Great Britain, however, the effectiveness or appropriateness of the Anglo-American-style reforms remains very much in doubt. There is no question that the move toward open economy can only be good for a heavily export-dependent country like Korea especially over the long run. Introducing advanced global practices to the Korean market would certainly be essential to enhancing its industrial competitiveness and continuous transformation, and in the wake of the 1997 crisis, for instance, foreign direct investments more than doubled to almost ten percent of the nation's GDP.

However, there is the question of pace and sequence in liberalization. It at all possible, the best choice would be to take a gradual, step-by-step approach to liberalizing your financial market; open up the financial sector at the last stage after you experience and manage liberalizing your product markets and foreign direct investment markets—and after you prepare your financial market institutions as well as your regulatory framework in accord with international standards. In fact, the immediate causes of Korea's 1997 financial crisis were none other than the government's ill-prepared

²⁹ SERI, "The State of Korean Finance and the Task of Enhancing Financial Efficiency," (In Korean), www.seri.org, July 30, 2004, p. 37.

financial liberalization and the resultant skyrocketing of short-term international loan inflows to 58 percent of the total foreign loans by 1995, up from 44 percent in 1993.³⁰ Perhaps the Korean government could not help but accelerate the pace of financial liberalization in the wake of the crisis as mandated by the IMF's bail-out loan package, but some of the consequences are quite disconcerting and troubling and thus worth noting a few of them here for the sake of rethinking for possible adjustments.

First, it is truly of grave social and economic concern that in the aftermath of the near "meltdown" of the nation's economy and the subsequent liberalization of its political economy, the ratio of petty manufacturers with 5-19 regular employees has further increased from 72 percent in 1995 to 76 percent by 2003, a reflection of the still intensifying polarization of the economy and industrial structure.³¹ The number of irregular, temporary workers has also increased from 43 percent of the total number of waged workers in 1996 to 48 percent by 2005.³² And accordingly, Korea's income distribution has deteriorated during the same period. The country's Gini coefficient,

³⁰ The Ministry of Finance and Economy (MOFE), *The Four Years of the Government of the People: The Footprints of Economic Policy*, (In Korean), (Seoul: 2002).

³¹ Kim Joo Hoon, et al., *Hyoksinchudohyong Kyongjeroeui Chunhwane Itsoso Chunggieui Yokhal* [The Role of SMEs in the Transition to Innovation-driven Economy], (Seoul: KDI Press, 2005).

³² Korea National Statistical Office, *Kyongjehwaldonginguchosa* [Census on Economically Active Population], (Seoul: KNSO, various years).

for instance, has gone up from 0.283 in 1997 to 0.310 by 2004.³³

Second, while Korea's corporate sector still heavily depends on debt-financing rather than capital markets for funds, the corporate share of the commercial bank loans have been shrinking from 75 percent in 1996 to 44 percent by 2004.³⁴ During the same period, the household/consumer share of the bank loans shot up from 20 percent to 41 percent, with the bulk of the loans going into the already highly-inflated real estate market. The sharp reduction of corporate loans stemmed in part from the government's rushed imposition of Anglo-American-style global standards on the financial institutions, which included such measures as the eight percent bank-capital ratio set by the Bank for International Settlements and the subsequent reduction of the corporate debt-to-equity ratio. The shifting of loan portfolios from the corporate to consumer sector was more pronounced in the foreign-owned banks, as foreign financial investors were frequently rather short-term profit-oriented funds. For instance, the corporate share of the total loans made by the Newbridge Capital-owned Korea First Bank dropped from 71 percent in 1999 to 33 percent by 2003, whereas the consumer share jumped from 18 to 66 percent during the same period. In comparison, the

³³ Korea National Statistical Office, *Toshikagyeyonpo* [The Urban Household Yearbook], (Seoul: KNSO, various years).

³⁴ This paragraph draws on SERI, "The Weakening Link between Financial Intermediaries and Corporate Funds," (In Korean), www.seri.org, January 3, 2005.

corporate share of the government-owned Woori Bank also decreased from 73 percent in 1999, but it stayed at a far higher level of 54 percent in 2003, and its consumer loan share also rose more mildly from 20 to 44 percent during the same period. In short, the financial intermediaries and the banks in particular were supplying less than adequate corporate investment funds.

The malfunctioning of the banks seems especially problematic in light of the fact that at least intermediately in the Korean context, banks may be in the best position to help improve corporate governance by making a long-term commitment through debt-equity swaps and by learning to provide credible credit analysis and monitoring based on accumulated information.³⁵ Given the persistent corporate dependence on debt-financing in Korea, it will take quite some time before an effective market in mergers and takeovers develops and institutional investors exert real market pressure on the way companies are governed.

More importantly, however, because the standards and practices in corporate governance remain notoriously low, incentives for insider trading, fraud, and other illegal transactions stay too strong. Here the government's enforcement of existing laws and rules may matter far more than mere addition of still more regulations. A

³⁵ Sang-Woo Nam, "Korea's Economic Crisis and Corporate Governance," KDI School Working Paper Series 99-02, (June 1999).

simple comparison of the legal enforcement practices between Korea and the United States may well illustrate the point. In 2003, Chey Tae-Won, the chairman of SK group, one of Korea's top *chaebol*, was convicted of illegal trading and accounting irregularities,³⁶ but he kept his job and control of the *chaebol* after serving only three months of a three-year sentence. In the aftermath of the 2004 Enron accounting fraud scandal in the United States, which actually involved far less amount than SK Global's, in contrast, Jeffrey Skilling, Enron's former Chief Executive Officer and Chief Operating Officer, was convicted and sentenced to 24 years in 2006, while Kenneth Lay, Enron's former Chairman of the Board and Chief Executive Officer had died of a heart attack before he was sentenced.

In fact, the problem of inadequate enforcement of existing laws underlies the very high share of monopolies and oligopolies in the Korean manufacturing sector still stayed very high.³⁷ In contrast to the Price Stabilization and Fair Trade Act of 1975, for example, the Anti-Monopoly and Fair Trade Act of 1980 was a more genuine anti-trust bill, whose primary objective lay in preventing excessive concentration of

³⁶ Korean government investigators uncovered a 1.5 trillion *won* accounting fraud at one of the *chaebol* group's subsidiaries SK Global (now renamed SK Networks), although the company was later found to have actually hidden well over four trillion *won*. See *Far Eastern Economic Review*, February 28, 2004; April 1, 2004.

³⁷ This section draws on Hun Joo Park, "*Tokjomkyuje mit Kyongjeryok Chipjung Wanhwa*" [Monopoly Regulation and Relaxation of Economic Power Concentration], in Jongryn Mo, et al eds., *The Politics of Economic Reform in Korea* (in Korean), (Seoul: Orum, 2002).

economic power and abuse of *chaebol* firms' dominant market positions (Article 1).³⁸

Its anti-monopoly provisions did become quite respectable through a series of revisions.

In the 1986 revision, for instance, the government introduced such effective measures as

a ban on direct cross shareholding between any two subsidiaries of the top 30 *chaebol*

and ceilings on total equity investments in other companies by any subsidiary of the top

30 *chaebol* (Article 7).³⁹

Nevertheless, the real cost of FTC actions to the *chaebol* proved not unbearable at all. Prior to increases in the maximum fine in the wake of the 1997 financial crisis, for instance, fines did not have the desired punitive effect, and virtually no criminal prosecution of top *chaebol* occurred. The *chaebol* in turn hardly ever challenged or attempted to overturn FTC rulings. The arrangement still suited the bottom-line interests of the bureaucrats, *chaebol*, and state power holders. Government officials retained a great deal of discretionary power, the *chaebol* retained their lucrative

³⁸ The 1975 law enforced only its price stabilization part, tightly regulating the prices of about 150 monopolistic and oligopolistic products. The FTC, *Kongjong Korae 10nyon* [The Ten Years of Fair Trade], (Seoul: FTC, 1991).

³⁹ The total equity investment ceiling was initially set at 40 percent of the investing company's net assets. The ceiling was lowered to 25 percent in March 1995, but then abolished in February 1998 in the aftermath of the nation's financial crisis. However, as the *chaebol*'s total equity investments in other companies skyrocketed after the abolition (primarily to shore up their own financial structure), the 25 percent ceiling was re-introduced in 1999 to take effect in April 2001. See *Chosun Ilbo*, November 27, 1998; *Hangyoreh Shinmun*, June 26, 2000; *Donga Ilbo*, July 20, 2000. At the end of 2006, however, the Fair Trade Commission decided to raise the ceiling back to 40 percent in a government bill to be submitted to the National Assembly in early 2007.

monopolistic market positions at relatively small cost, and the power holders helped legitimize their rule by apparently bashing *chaebol* while simultaneously keeping a tight rein on them.⁴⁰

In order to enforce and institutionalize a rule of law, therefore, Korea may have as yet to find alternative vision or political leadership to redefine and redirect the identity of its political economy towards people-centered development. Clearly, reconstruction of the Korean state necessarily goes beyond the parsimonious, but misleading globalization argument, which is predicated on the neoclassical economic assumption that the government's market meddling, no matter how well intentioned, is the primary culprit of all political economic problems.⁴¹ The centrality of a free market approach finds fault not with a particular *type* of state-directed economy (as I do), but with *any* type of state economic management. However, the problem is not with *dirigisme* in itself, but rather with the nature and character of *dirigisme* that Korean authorities chose to practice. What distinguishes a *dirigiste* state from, say, a predatory state is the presence of developmentally committed state leadership and autonomous

⁴⁰ See the FTC, *Kongjong Korae Yonpo* [Fair Trade Yearbook], (Seoul: FTC, various years); Shin Kwang-Shik, *Sijangkoraeeui Kyujewa Kyongjaeng Chongch'aek* [The Regulation of Market Transaction and Competition Policy], (Seoul: KDI, 1992); *Kyongjaeng Chongch'aekkeui Kukjepikyo* [Competition Policy in International Comparison], (Seoul: KDI, 1994).

⁴¹ Milton and Rose Friedman, *Free to Choose*, (Chicago: University of Chicago Press, 1990).

bureaucracy, and in fact, the presence of a Weberian professional bureaucracy could have helped to check Korea's undemocratic, highly centralized and highly personalized *dirigisme*. It goes without saying that no man-made system lasts forever. Even a healthy and functional *dirigiste* system can degenerate into a diseased type over time without democratic checks and balances and without institutionalized democratic values.

However, a democratic dirigiste state truly committed to a people-centered development would go a step further to empower its own people for fuller realization of their human potentials. As David Korten puts it, “[o]ne of the important challenges of people-centered development is to reorient the major development bureaucracies of government to become organizations that appreciate and enhance the humanity of both their members and the citizens they are intended to serve.”⁴² As the purpose of people-centered development and of constructing a more humane society is to enhance the well-being, economic equity, human dignity, liberty and community of the people, indispensable would be empowering people especially at lower levels both in and outside of government bureaucracies. Thus, it entails a restoration of public trust in the integrity of the state and its power holders, and a radical decentralization and delegation of power of the state and its policymaking and implementation processes, in

⁴² David Korten and Rudi Klauss, eds., *People-centered Development*, (West Hartford: Kumarian Press, 1984), ch. 30, p. 305.

which ordinary citizens genuinely and routinely participate in the workings of decision-making at various levels.

Especially in a country like Korea where power remains highly centralized and personalized, the delegation of decision-making authority from top to lower levels is a must to empower people. The delegation of authority needs to occur not just between higher and lower institutions and organizations, but also within each and every organization. If the pattern of heads of institutions running their organizations as their own fiefdom gets simply replicated at lower levels, such decentralization may be inadequate to serve the needs of ordinary people. If heads of lower organizations were to act only as little czars pursuing their own personal purposes, such de-concentration and decentralization may not have achieved much except a fragmentation and localization of the essentially same, if centralized, spoils system. Thus, institutionalization of democratic values such as public trust and rule of law also needs to occur. In accord with the concept of public trust, clearer distinction between public offices or roles and the people who hold those offices must also be made so that public officials devote themselves as servants and not as possessors of the public. And for that to happen, a broader participation of empowered people and civil society is called for. “Government by the people” is clearly one way to achieve people-centered

development.

Undoubtedly, people are fallible, and they may not always make good conclusions when presented with various arguments. As J. S. Mill argues, however, there are good reasons why allowing complete liberty to express opinions is a wise policy to effectively hold the government accountable: 1) the suppressed opinions may actually be true; 2) even if the opinion is false, public debate over the opinion would help bring the truth more clearly; and 3) if the opinion is partially true and partially false, as more frequently would be the case in real life, debates, unless superficial in kind, would help balance and adjust views in ways to clarify what parts are true and what false.⁴³

Allowing such liberty of opinion may well be costly to an extent especially during the trial and error period, but Korea today does have the resources to pursue that. Without such checking and balancing voices, in fact, Korea's past had gone through disastrous tyrannies. Building civil societies and self-help capacities of the people cannot be done overnight. But people ordinarily perform better if treated with trust, respect and dignity, and here the empowering government can help provide a more enabling environment where authorities and higher-ups do not treat people below in a disrespectful way.

⁴³ John Stuart Mill, *On Liberty*, (NY: Cambridge University Press, 1989).

Concluding Remarks

The financial and economic collapse of 1997, a juncture as pivotal as that of Park Chung Hee's seizure of power in 1961, provoked serious reflection on Korea's development experience. Most Korean experts and the mainstream press saw – and still see – the nation's historical task to be to streamline the economy for more efficiency, growth, and global competitiveness. However, this misses the real lesson in the nation's purgatory: at the heart of Korea's development experience was a failure to put the people at the center of the process. While a kind of social equality was a subsidiary goal of Korea's elites throughout the development process, it was always a secondary one, a way of justifying top-down rule, whitewashing “grand” elite collusion and gaining popular acquiescence. Including and empowering ordinary citizens in policymaking and its implementation process was never seriously considered.⁴⁴

This is not to downplay the importance of growth, efficiency and competitiveness.

⁴⁴ The process of democratization since 1987, and the Kim Dae Jung government's “NGO empowerment” policy in particular, have started to engender multiplication of diverse interest groups and civil society organizations with crosscutting and contradictory interests. But Korean civil society movements remain predominated by a small number of large, elitist, and top-down organizations like the Citizens' Coalition for Economic Justice and the People's Solidarity for Participatory Democracy. See Shin Yul, “*Hankuk Shiminundongeu Kaenyomjok Wisangkwa Munjejom*” [The Conceptual Status and Problem of Korean Civil Society Movement], *Korean Political Science Review*, 35:2, Summer 2001.

These are important fundamentals for any developing country to focus on. But diving headfirst into the currently popular “globalize or die” rhetoric, adhering above all to efficiency and competitiveness, represents an extreme posture which risks repeating the societal failures of Korea’s past modernization. For all along, the fundamental flaw in Korea’s blatantly results-oriented, militaristic, top-down, state-led development experience was elite collusion and the lack of people-centeredness. State-led development in Korea provided access to greater amounts of material goods for the people, but this was done at the cost of limiting or even subduing all active voices other than the *dirigiste* voice. Human dignity requires not just access to material goods, but also a meaningful place in society. The rapid socio-economic changes over the past 40 years have sidelined the human values of social life. The human dignity of ordinary citizens is the purpose of development, and the dearth of this human element is the deadly disease of Korean development.

However, *dirigiste* choice of growth over equity at an early stage of development process may not be easily reversible at a later stage. *Dirigiste* development and undemocratic governance create entrenched, self-sustaining interests and structures that no amount of reform politics as usual can touch.

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