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The Political Economy of Vortex in South Korea: The Limits to the Developmental State's Problem-Solving Capacity

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The Limits to the Developmental State's Problem-Solving Capacity

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I. Introduction

The impeachment of President Park Keun-hye, the first since the 1987 democratization of South Korea (Korea, hereafter), upheld by its Constitutional Court on March 10, 2017 on charges of bribery, extortion and abuse of power, has dramatically demonstrated the fact that Korea's practice of state-led political economy has come a long way from the developmental dictatorship presumably perfected by Park Chung Hee, the late father of the impeached president whose rule had come to an abrupt end in an assassination by the hands of his own personal confidante. On the one hand, the large and peaceful protests of the citizens which started and saw through the impeachment process were a clear sign of maturity of the nation's democratic polity. On the other hand, however, the alleged crimes represented the latest revelation of the polity's deeply-entrenched elite collusion problem between state power-holders and owners of *chaebol* firms, family-run big-business conglomerates. As the top-level corruption scandals entailed Park Keun-hye and her close confidante Choi Soon-sil's collusion with *chaebol* families including Lee Jae-yong, the de facto owner of Samsung, the citizens were in effect rebelling against the underlying state of the political economic structure, which was increasingly out of touch with the lives of ordinary citizens. Korea's growth and development have quite long been touted as relatively equitable by world standards. By the early 1990s, in fact, even the World Bank positively acknowledged the functionality of the developmental state' market interventions. Over time, nevertheless, the state's dysfunctionality has become more pronounced, as manifested in the polity's inability to deal adequately with structural, institutional and long-term problems of its own, let alone pervasive elite collusion. This paper explores the deeper-level causes underlying the developmental state's shortcomings.

II. Why and How Institutions Matter[1]

Theories or arguments on the empirical determinants of economic growth have abounded in the last decades.[2] More specifically, although the empirical evidence on the relationship between political regimes or democracies and economic growth remains

[1] This section heavily draws and builds on Park (2013).
[2] For some excellent reviews and/or exemplary works of this literature, see Barro (1998); Drazen (2000); Helpman (2004).

ambiguous,[3] there exists a vastly growing and strongly supportive array of scholarly works on the economic effects of institutions and governance structures.[4] For instance, Knack and Keefer's seminal work in 1995 corroborates the indispensable role that the quality of institutions in terms of the security of property rights and contract enforcement plays for economic and investment growth. Mauro's seminal research in the same year also finds supporting evidence for the causal impact of institutional quality, defined in terms of subjective indexes of corruption, on negative economic and investment growth.[5]

However, the institutional political economy of economic growth as a research program has not been without its own critiques, a few of which are worth mentioning here. The first concerns the measurement issue, since such concepts as democracy, political authority and accountability as well as most indicators of institutional quality remain hard to measure or operationalize. Second, the institutional quality indicators, which actually measure institutional outcomes, are often inadequately fitted for use in any rigorous causal analysis, especially of large-N type research, on institutions and economic growth. And perhaps most importantly for the purpose of this paper, the otherwise excellent researches on the linkage between institutions and growth per se may not be of much practical value without the follow-up studies on how good quality institutions can emerge or be developed. In this regard, it should be noted that the institutional economics literature has generally slighted the role of government in making, implementing and coordinating good policies, including those which can build such quality institutions as well as in facilitating close consultation and cooperation between the public and private sectors especially in early stages of economic growth or industrialization. Thus, the present paper aims to focus on the role of government in enhancing its implementation capacity as well as in continuing to renew itself and its operation towards strengthening governance and institutions for any given country's inclusive medium- and long-term development.

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[3] For a comprehensive evaluation of the literature on this subject, see Feng (2003).

[4] See, for instance, Knack and Keefer (1995); Mauro (1995); Alesina (1998); Hall and Jones (1999); Acemoglu, Johnson, and Robinson (2001); Acemoglu and Robinson (2012).

For the purpose of this paper, we use the non-problematic OECD definition of governance "the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic development" (cited in Weiss 2000), and North's (1990) definition of institutions as "humanly devised constraints that shape human interaction."

[5] Alesina (1998) provides further empirical evidences on the linkage between economic growth and the quality of institutions, operationalized in terms of bureaucratic efficiency, absence of corruption, protection of property rights, and the rule of law.

The Growth Report, which the World Bank Commission on Growth and Development issued in May 2008, identifies some essential features commonly shared by 13 economies with success stories of sustained, high growth in the postwar period: 1) an open-economy growth strategy; 2) institutions characterized by openness, rule of law, competent and developmentally-committed bureaucracy; and 3) political stability. As Brady and Spence note in their 2010 edited volume *Leadership and Growth*, which followed *the Growth Report*, it is not surprising that there exists considerable allowable variation in making choices over the set of essential features. Nonetheless, there is no question that governance structure or institutional foundations have a critical impact on the success and sustainability of any medium and long-term development plan and its policy outcomes. The *Leadership and Growth* volume demonstrates that "sustained growth is tied to quality institutions, and that good governance ensures maintained quality" (Brady and Spence 2010, p. xiv).

According to Acemoglu and Robinson (2012, p. 42), put differently, what explains any nation's success in attaining sustained growth or development is "the way its institutions, both economic and political, shape the incentives of businesses, individuals, and politicians." It is the quality of economic and political institutions a nation has that play a critical role for generating sustained economic development in the country: "Economic institutions shape economic incentives: the incentives to become educated, to save and invest, to innovate and adopt new technologies, and so on. It is the political process that determines what economic institutions people live under, and it is the political institutions that determine how this process works" (Ibid). In short, economic and political institutions shape and influence how people behave, and without such an institutional framework, no societal transformation of individual talent into a sustainable positive force can take place (Ibid, p. 43).

Among others, in fact, the Korean and East Asian developmental experiences provide particularly strong support for such a proposition. Indeed, the core component elements of institutional foundations which have proved conducive to long-term development in Korea, and East Asia, for that matter, include: 1) political stability and market institutions; 2) the government's clear and credible commitment to development; 3) competent bureaucracy with long-term vision, dedication, and effective policy tools for market-conforming intervention, and 4) a pilot agency for development policymaking, implementation and coordination.

In the case of Korea, for instance, development and catch-up industrialization were Korea’s predominant goal particularly after liberation from Japanese colonialism.[6] The national security concern was uppermost in the leaders’ minds; given the linkage between industry and independence in their thinking, they pursued industrialization to build the economic base for national independence and self-determination. Once the commitment to development of the political leadership was clear and credible, what Johnson (1982; 1987) called the developmental state’s bureaucracy could go beyond the market; what made the “plan rational” state in Korea as well as in Japan more effective than both the Communist and the liberal-capitalist states was that its competent and autonomous bureaucracy intervened in accord with long-term market opportunities. This was possible in part because of its more comprehensive, long-term vision and competent personnel, whom it recruited from the best and brightest graduates of the nation's elite universities through grueling civil service exams. The bureaucracy possessed many effective policy tools to target industries: finance, tax breaks, control of foreign exchange and import/export, various protection for infant industries, broad regulatory powers, and informal administrative guidance—albeit not backed up by forces of law; still, the state could get you if you made trouble or did not obey such a guidance.

The bureaucracy helped create dynamic comparative advantages by moving up the ladder of value-added from light, labor-intensive industries to heavy, capital-intensive and more knowledge-intensive industries. Also, taking advantage of product cycle, it promoted sun-rise industries or industries with many forward and backward linkages, while phasing out sun-set industries. The bureaucracy also undertook industrial rationalization programs, taking steps necessary to bring such industries as steel, auto, gas and electricity up to global standards.

In any economy’s transition to a more advanced, if knowledge-based, one, the increasing emphasis gets placed on the role of the private sector. Undoubtedly, the market constitutes the most efficiency-enhancing mechanism ever devised by humanity, and deepening and solidifying such an open market system would be in the interest of the economy’s long-term development. However, no two market economies can exactly be the same, and an open, fair, transparent and equitable market economy does not come naturally—just as Polanyi (1944) has documented in his masterpiece on the

[6] The ruthless exploitation of the 35 years of Japan’s colonial rule hijacked, derailed, and aborted Korea’s early modernization efforts in the late 19th century.

historical process of market creation in England. Instead, it is an outcome of politics and institutions. The withdrawal of the government from the market does not automatically create a competitive, well-functioning market. As the economy matures, of course, the desirable role of government changes; the importance of it does not. In fact, the role of government, the kind of policy tools it has, and the way it exercises such tools for what purposes and with what level of capacity, competence and dedication would critically determine the nature, systematic design and framework of the economy and society that any given country will have.

III. The Limits to the Developmental State's Problem-Solving Capacity

Korea's developmental experiences and the role of developmentally-committed government in spearheading the process were indeed transformative, as pronounced especially during the development decades, which uplifted the country from an international aid recipient nation as one of the world's poorest into the ranks of a donor country as a member of the OECD's Development Assistance Committee by the late 1990s. For instance, the visible hand of Korean developmental state especially during its early decades successfully out-competed the invisible hand of price mechanism in the so-called efficiency-enhancing game, directly intervening in the market, getting the "prices wrong," and targeting its various supports and incentives in favor of strategic industries with umpteen forward and backward linkages (See Johnson 1982; Johnson 1987; Amsden 1989). As Park (2004) has argued, however, while Korea's top-down statism, characterized by vertical political structure, centralized decision making, and the dearth of institutionalized checks and balances—as deeply consolidated and entrenched during the early, if dictatorial, development decades, had engendered rapid growth in the past, it has become increasingly dysfunctional over time, constituting a key causal factor behind the nation's troubling polarization problems and its inability to deal with them constructively for continual structural and institutional renewal and development of the political economy. Umpteen signs have already become apparent that the Korean model of growth-generating "machine" needed recalibration, as the health or developmental functionality of the goose that had laid the golden eggs became increasingly questionable. For instance, Korea's long-term potential growth rate has shown downward trend from over six percent in the 1990s to fall below four percent in the 2000s, and the society suffers from multiple dimensions of egregiously growing socio-economic polarization problems: rising income and wealth inequality, ever increasing concentration of economic power especially in the hands of top *chaebol* firms, and widening gaps in growth and earnings between large and small firms, to list just a few here (See, for instance, Figures 1, 2, and 3 below). In short, the Korean political economy is increasingly haunted by a series of structural and institutional problems which it finds unwilling or unable to address, not to mention resolve.

[Figure 1 about Here]
[Figure 2 about Here]
[Figure 3 about Here]

Hence, some additional reality checks are in order so as to understand more clearly and assess if the usefulness, if not appropriateness, of Korea's old growth-at-all-costs paradigm—which in essence aims at the economy's growing its way out of problems—has reached its limits. As a matter of fact, it is not surprising that the country's potential economic growth rate has dropped well below four percent, as the same old oligopolistic big business-based, export-driven growth strategy and policy have persisted, further aggravating the *chaebol*-dominant market structure and thereby stifling fair opportunities for innovation and innovativeness in the non-*chaebol* sectors, among other things. It is interesting to note here that while the country's trade openness has gone up from 60 to 120 percent, the export value-added has gone down from 70 to 53 percent during the period from 1992-2012. Such a decline in the export share of local contents or value-added can at least partly be explained by the fact that the export share of Korea's small and medium-sized enterprises (SMEs) has gone down from over 40 percent to below 20 percent during the same period (See Figure 4 below). In case one includes the nation's petty or micro firms (with no more than four employees) not only in manufacturing but also in services sector, which make up about 90 percent of all firms in terms of the number of establishments, the backwardness of the SMEs sector becomes even more striking. However, it is this backward sector that employs the great majority of laborers. As Figure 5 below shows, for instance, the country's self-employers sector or so-called mom and pop businesses have hired over 25 percent of the whole workforce since the 1990s, in contrast to seven percent in the United States, ten percent in Germany, 11 percent in Japan, and 16 percent in Taiwan. And this poor sector in Korea has been markedly aging: the ratio of those mom and pop business operators aged 40 or above hiked from 62 percent in 19995 to 72 percent by 2003. Under such a background, hence, there is no wonder that the poverty rate among the elderly population aged 65 or above in Korea has come to record the worst among all

OECD member countries (See Figure 6 below). Nevertheless, c*haebol* firms have been increasingly encroaching upon even the domestic consumer markets at the expense of small or mom-and-pop businesses, while the political economic polarization problems worsened. Still, Korea's putatively developmental state has tended to avoid directly confronting or failed to competently address such structural reform issues as polarization and income inequality, let alone the *chaebol* and elite collusion problem. Instead, the government resorted far more frequently to construction industry-based growth stimulus policies in the hope of growing its way out of problems, which were like taking mere pain relief measures at best or treating the symptom rather than the problem and its root causes. It goes without saying that the housing and SOC construction-driven growth had also reached a saturation point in the past ten plus years, if not earlier. As a result, the household debts have now increased to 1,400 trillion *won* or over 80 percent of the country's GDP, while the state-owned enterprises' debts amounted to 397 trillion *won*; the government debts to 509 trillion *won*; and the nation's external debts to 417 trillion *won* (BOK 2017). As shown in Figure 7 below, Korea's real estate asset as a ratio of its total asset remained at over 75%—in contrast to 30% in the United States as of 2012 (Korea Financial Investment Association 2014).

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[Figure 6 about Here]
[Figure 7 about Here]

Despite such serious and cumulative signs, which became clearer and more visible especially since the mid- 1990s, of egregiously lopsided, polarized and increasingly dysfunctional structure of the political economy—where big business-bias with growth, if too heavily construction-driven, preoccupations remained pronounced, nothing much really has been done to address the structural and institutional problems in national-level strategy and policy terms. Even in promoting a creative economy, supposedly a more structural reform-minded initiative pursued by the previous administration under the then President Park Keun-hye as its flagship economic development policy project, therefore, the time-proven *dirigiste* interventionist pattern has continued to prevail. Be they techno-park projects or industry-academia collaboration projects, they remained centrally directed and funded. And an overwhelming majority of the funding for techno parks, business incubators, free economic zones, and even universities came from the central government. Localities were merely in charge of operating them under the central government directives and requirements. Such a top-down, heavy-handed approach is like thoughtlessly applying mechanical pumps to extract the ground water, while one can make the pressured water to flow naturally from aquifers by drilling a well in the right location in an artesian aquifer. And any pipe bending against the principles of water flow or use of a wrong connector is bound to incur backlashes to the dynamics of the pumping system.

In short, the real problem underlying the Korean state's increasing inability to address and innovatively resolve more structural or institutional inadequacies of its political economy lies at the systemic level. In order to understand the deeper-level systemic causal factors, one can start by looking at the fact that the Korean state has discontinued its five-year development plan practices since 1994. It is true that the traditional-style, comprehensive five-year planning has been in decline globally, that does not, however, deny the value of strategic and effective mid- to long-term planning exercises. Particularly in a country where the market mechanism remains underdeveloped, and the nation's developmental challenges fundamentally require a structural and societal transformation, a strategically well-designed and coordinated mid- to long-term planning has a symbolic and practical value as a vehicle for mobilizing the citizens for positive, long-term development. Actually, one can take a step further and argue that even after economic development takes off, and the economic structure matures, strategic use of mid- and long-term planning can still be of great value. Indeed, setting the government's, if not nation's, proper policy priorities remains important, and use of mid- or long-term planning can provide a nice mechanism for continuing to do so—as such a national planning process can help build a national consensus and enhance the predictability of—and the receptivity to—policy directions. Hence, one can doubt the wisdom of the Korean government's discontinuation of its five-year national development planning practices and dissolution of the key planning institution Economic Planning Board (EPB) at the end of 1994 for having accomplished its mission. Prior to the change, the EPB had provided a key institutional agency to ensure sustained and nationally-coordinated implementation of the government plans, projects and initiatives, and together with the Ministry of Finance and the Ministry of Commerce and Industry, it offered some modicum of checks and balances at least in helping to set the direction of economic policies.

In coordinating economic policies, the EPB could retain its core competence, reputation and credibility as the pilot ministry for the nation's long-term development not only because the political leadership in Korea gave the EPB such a broad mandate or mission, but also because unlike other government ministries or agencies, the EPB remained autonomous from any particular societal groups. While being largely free from societal interest groups and without the constraint of parochial institutional interests, the EPB could pursue the nation's broader and long-term development goals. In fact, the persuasiveness of EPB's policies or arguments stemmed from its less biased and more rational analytical capacities: its ability to identify short- and long-term policy issues or problems as well as to offer more progressive and internally coherent policy alternatives to the pressing problems of the time. Against such a backdrop, it is worth recalling the fact that before its dissolution, the EPB, in conjunction with the government-funded national policy think tank under its supervision Korea Development Institute (KDI), spearheaded the introduction of real name financial transaction system in 1993, arguably the nation's one last proactive and successful major structural and institutional reform with positive long-term impact on the economy and society.

It should be noted that the presence of a plan-rational bureaucratic mechanism placed around the EPB and its policy think tank, which played a rationalizing role in the otherwise autocratic top-down decision making system, has had a limitation in the extent to which it could check or balance the political power-holders, who have called the shots. In other words, the president and his staff in the Blue House have determined the kind and level of input and influence the experts in the professional policy community could exert, and the relative weight or importance placed on such a professional rationalizing consultative process has declined over time. In effect, the Kim Young-sam Administration, newly inaugurated in 1993, practically ditched the country's five-year development planning practice and set the tone of its economic development policy or approach by announcing and resorting to a so-called "New Economy 100-day Plan," an economic stimulus package for a statist quick fix in delivering visible growth. In the second half of the year, the Kim Administration did pronounce an alternative "New Economy Five-Year Plan," which through "globalization" aimed to raise the nation's per capita GDP to $14,000 and help join the rich countries' club. With the existing five-year development planning apparatus being dismantled, however, the economic policies of the new plan were tantamount to those without a long-term, systemic outlook or fresh thought leadership. As the globalization drive the New Economy plan entailed a hasty liberalization of the country's financial system in order to meet the requirements of the OECD club membership, it consequently hiked the Korean economy's vulnerability to external shocks. To make the long story short, the ill-prepared statist globalization or liberalization proved the underlying reason why Korea succumbed to the contagion effect of the 1997 Asian Financial Crisis, as it, first started in Thailand, spread across borders.

In the aftermath of the 1997 crisis, as a result, the inequality-amplifying and polarizing effects of the marketization, liberalization, or globalization campaign started to become much more grave and disconcerting. As Figure 8 shows, for instance, the corporate and household savings rates have gone on in the directly opposite directions since the crisis. Consequently, as pointed out earlier, the household debts have skyrocketed to 1,400 trillion *won* or over 80 percent of the country's GDP, while the corporate debts ratio has been reduced to only 86 percent by 2017 (See Figure 9 below). And yet, the old growth-driven state's policy bias has continued to accord businesses or corporations with umpteen privileges. As Figure 10 shows, for example, the country's effective corporate tax rate remained at less than five percent, in comparison to ten percent in China, 18 percent in the United States, and 22 percent in Japan.

[Figure 8 about Here]
[Figure 9 about Here]
[Figure 10 about Here]

How well or differently did then the Kim Dae-jung Administration cope with growing dysfunctionality of the country's political economic model, which came into office in the midst of the 1997 financial crisis, humiliating IMF bailout programs and consequent economic turmoil? The Kim Dae-jung Administration represented the first peaceful change of the ruling regime by the opposition. The left-oriented life-time opposition leader Kim Dae-jung might not have come to power, however, if there had not been the national economic crisis. Hence, one could assume that at least in terms of its orientation, the new administration would be more open to reforming the old statist political economic system. In its foreign policy, in fact, it did mark a greater break from the past by adopting a more conciliatory approach called "the Sunshine Policy" towards North Korea, for which President Kim received a Nobel Peace Prize. In the realm of economic policy, however, the Kim Dae-jung Administration stayed too preoccupied with the ongoing crisis management task to mastermind long-term, systemic reforms of the economy and society in the early years of its five-year rule. While the government pushed such economic reform as restructuring the *chaebol* sector in state-led M&A "Big Deals" and requiring an improvement of its transparency and corporate governance practices, it did so for further globalization, liberalization and marketization of the economy more in alignment with the IMF recommendations—which ended up further aggravating the society's inequalities and polarization problems. And after the IMF loans were paid back in two years, and the sense of national economic crisis subsided, complacency and continuity of old *dirigiste* growth paradigm were once again more pronounced, and the economic policies of the otherwise more reform-oriented opposition party in power became not really much more than tweaks to the existing system or business-as-usual way of doing things.

The 2002 election of Roh Moo-hyun, a human rights lawyer with little formal education, to succeed Kim Dae-jung as president raised hopes of political economic structural reform particularly from the ordinary citizens' standpoint. Roh's electoral success heralded the rise of a new generation of politicians to power, the so-called "386 Generation" who were in their thirties when the term was coined in the 1990s, who had attended university in the 1980s and born in the 1960s. As veterans of student protests, they were at the center of the nation's democracy movement against the authoritarian military rule. With their support, the Roh Moo-hyun Administration continued the Sunshine Policy toward North Korea even at the expense of its relations with the United States now under George W. Bush's leadership, staged a frontal attack on authoritarian practices of the statist establishment to the point of undermining his own authority as the president, and pursued a "balanced national development" in an effort to fight against the regional disparities and animosities, a legacy of the biased and unbalanced development policies of the past military dictatorship. While President Roh's pursuit of balanced regional development entailed an attempt to relocate not only the Capital from Seoul to Sejong but also such public institutions as public corporations and government-funded think tanks and research centers to various provinces as a way to develop regional innovation cities in favor of underdeveloped areas, it tended to generate more controversies and conflicts than progressive outcome. As the Constitutional Court ruled the relocation of capital as unconstitutional, President Roh turned the plan into a "Sejong Administrative City" construction project, and together with those on building regional innovation cities, it engendered a national real estate investment spree, and as a byproduct, price hikes followed. In brief, the Roh Administration's sincere efforts at governing, in general, and engineering socio-economic development, in particular, were frequently marred by its own ignorance, inexperience, inconsistency and incompetence. Contrary to popular expectations upon electing Roh Moo-hyun, cheered as an outsider to the establishment, the Roh Administration had no better alternative ideas or knowledge on making the political economic system more equitable, efficient or sustainable—except adopting the old *dirigiste*-style goal of attaining $20,000 per capita GDP as a key, self-defining characteristic of its economic policy. To President Roh, the value of long-term systemic perspective on institutional reform came only as an afterthought: In the form of commissioning the KDI to undertake a research project on Vision 2030 and its policy requirements. However, the Vision 2030 project produced its output only towards the end of the Roh Administration—without any budgetary or financial provisions or considerations, which practically amounted to too little and too late to work out a feasible implementation plan and strategy and put them into practice. President Roh's failure and the resultant public disillusionment with Roh-like anti-establishment figures laid the ground for the conservative Saenuri Party's electoral success at the presidential race that followed.

Lee Myung-bak, a former *chaebol* (Hyundai Construction) company CEO with dubious ethical standards, in fact, won the 2007 presidential election on the promise of delivering his so-called "747 Plan" within his five-year term: attaining seven percent GDP growth rate per annum; $40,000 per capita GDP; and the top seventh largest economy status for the country. A key driver of his plan for supposed revival of the level of rapid economic growth achieved during the development decades was the Grand Korean Canal Project, which proposed to construct a 540 kilometer-long waterway, connecting Seoul/Han river and Busan/Nakdong river. Confronted with the voices of opposition based on cost-benefit and environmental impact analyses, the Lee Myung-bak Administration camouflaged its national flagship development project as Four Rivers Restoration Project (Geum and Youngsan as well as Han and Nakdong rivers) to evade strong public criticism and went ahead to blitzkrieg the completion of the over 22 trillion *won* mega project before the end of his presidential term. While the administration claimed that the project would enhance water security, improve flood control, and better manage the environment and eco-system, the verdicts of the National Auditor's Office even during the Park Keun-hye Administration, which succeeded in keeping in power the same conservative Saenuri Party to which Lee Myung-bak belonged, have stated otherwise.[7] Yet more serious a problem may have laid in the continued predominance of growth-almost-at-all-costs and still heavily construction-based policy paradigm. Perhaps one may call it a success trap in which Korean *dirigisme* has fallen. Although the national Prosecutor's Office has finally begun to investigate into the alleged power abuse and corruption charges against Lee Myung-bak

[7] See National Auditor's Office

and his henchmen, therefore, it may be well worth to look a little more into the processes as well as the outcomes of Lee Myung-bak Administration's pursuit of its flagship economic development projects for the purpose of this paper.

In executing the Four Rivers Restoration Project, in fact, the Lee Myung-bak Administration bypassed the bulk of legal requirements such as the pre-feasibility test.[8] According to the July 8, 2009 report prepared by the National Assemblyman Cho Seung-soo's office from the New Progressive Party,[9] the Lee Myung-bak Administration revised the enforcement decree of the National Public Finance Law in March 2009 so that those government projects which the Minister of Strategy and Finance deems as necessary for disaster prevention or other public policy purposes could also be exempted from the pre-feasibility test requirement. As a result of the revision in the decree, an additional list of construction projects related to the Four Rivers Restoration Project worth over seven trillion *won* received exemption from the requirement. In order to finance the project, moreover, the Lee Administration exploited the K Water—a relatively small and financially sound state-owned company in charge of the nation's water resources management, whose leadership had been replaced by one of the then President Lee's henchmen—by having it incur over eight trillion *won* debt to spend it all within four years for the sake of project completion in accord with the plan, as shown in Figure 11 below (Please see also Figure 12 below for the change in K-Water's foreign debt levels). And in the process of selecting the construction companies to undertake the project orders, furthermore, the authorities set the bidding companies' qualification bars high so that only big *chaebol* firms could partake. According to the Fair Trade Commission, the end outcome of the bidding process was such that the average bid winning price for the Four Rivers Restoration Project recorded 93 percent of the estimated cost, which smacked of collusion or bid rigging given that typical competitive bid winning prices average 65 percent of the estimated cost in the country (See Table 1 below). The Fair Trade Commission fined eight of the construction companies for the alleged bid rigging, but the amount of fine totalled no more than ten percent of the extra profit or rent the collusive network generated for the *chaebol* firms. After all, neither the Auditor's Office's inspections nor the Fair Trade Commission's investigations into the Four Rivers Restoration Project succeeded in full fact-finding,

[8] By law, all public investment projects worth more than $50 million have been subject to the KDI-administered pre-feasibility test since 1999, whose otherwise fair, transparent and reputable cost-benefit analyses have passed only about 50 percent of the projects in its entire history of operation.
[9] The National Assemblyman Cho Seung-soo's office wrote this investigative report on the basis of information and data provided by the concerned ministry of the Korean government.

which could reveal the entire legal and procedural wrongdoings or irregularities in any systematic or adequate manner. It goes without saying that the project's environmental impact assessment had also been bulldozed within four months in a top-down, at best quasi-legal, fashion—which is less than one tenths of the time any OECD member country would have normally taken to proceed in accord with the basic OECD principles of democratic governance (See OECD 2014; 2015).

[Figure 11 about Here]
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[Table 1 about Here]

The Overseas Natural Resources Investment Spree represented another national-level flagship project in the Lee Myung-bak Administration's economic development strategy and policy. In the name of energy and natural resources security, the Lee Administration revived a high-risk conditional loan repayment system for Korea's concerned state-owned enterprises (SOEs) such as Korea National Oil Corporation, Korea Resources Corporation, and Korea Gas Corporation, a financial guarantee scheme of the government which created so huge a moral hazard problem in the SOEs that they in effect plunged into massive debt-financed overseas investment spree. The amount of money invested or literally thrown at many of the questionable overseas targets by the three SOEs alone exceeded 26 trillion won during the less than five years of President Lee's tenure. As Figures 13, 14, 15, 16 and 17 below show, the three SOEs's debt levels, both domestic and foreign, began to skyrocket to unsustainable—with gargantuan losses, if not totally bankrupt as yet, levels since the middle of 2007 after Lee Myung-bak placed his henchmen at the SOEs' top management positions. As scandalous revelations began to surface during the subsequent Park Keun-hye Administration regarding the previous regime's investment spree, the Prosecutor's Office started to investigate into them and did refer two of the three SOEs' CEOs for judicial trial. While the CEOs' improprieties have been tried in court on legal/technical grounds, the Prosecutor's Office or the nation's judicial system at large has as yet to succeed in finding facts in full or go after the then regime power-holders including Lee Myung-bak. Fortunately under the Moon Jae-in Administration, which hailed to power in 2017 in the aftermath of the ordinary citizens' candlelight protests and the consequent impeachment of Park Keun-hye, a more full-fledged investigation has started into the allegedly corruption-ridden overseas natural resources investment spree, and it bears watching as to whether or to what extent justice can be served this time, and a truly new pathway can be charted in the evolution of the nation's political economic system.[10]

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[Figure 17 about Here]

IV. Concluding Thoughts

From historical institutionalists to rational choice theorists, the role of institutions has been at the center of their respective explanations of economic development. Rational choice theorists or neo-institutional economists have tended to operationalize institutions as formal or informal "rules of the game," a strategic environment in which rational, economically-calculating actors make their self-interested choices. Nonetheless, economic rationality is not the only rationality, and actors' preferences cannot always be assumed away on the basis of utilitarian principles. The causality between institutions as structures and actors as agents of history does indeed flow in both ways. While institutions are not independent of agents, institutions shape actors' preferences and behaviors and thereby development performance—both positively and negatively, like a double-edged sword. From the perspective of policymaking and implementation, institutions help enhance the quality of policies. By mandating formal and informal rules, norms and processes of policy-making as against "rule of men," institutions can help contain the arbitrary whims of those in power, thereby making policy more stable, predictable and consistent. On the other hand, institutions or the existing way of doing things can limit or deter adaptive changes of society in response to changing environments or times. Whereas individuals can respond more flexibly to changing environments under weaker institutional constraints, institutions are generally slow to change, lagging behind the changes in economic and social conditions, containing or delimiting the extent to which even sound charismatic political leadership can bring about change or reform in institutions and thereby social outcomes.

[10] While this paper is being written, a series of new investigative reports continued to come out on how President Lee Myung-bak and his henchmen abused and exploited POSCO in a multitude of coerced, if too frequently financially absurd and disastrous, overseas investment projects at the expense of its financial soundness as well as its competitiveness in its core business of quality steel making. See, for instance, *Newstapa* February 26, 2018 and March 8, 2018.

Korea's developmental experiences provide a representative case in point. As this paper has argued, the Korean developmental state seemed to have succeeded in managing to engineer the process especially during the earlier decades, creating comparative advantages through market-conforming institutional interventions. However, the state has become less functional developmentally as time has gone on, as manifested in its inability to confront with or more innovatively handle such structural, institutional, and often debilitating long-term problems of the society as the *chaebol* problem, increasing inequities and ominous patterns of polarization. While the power of the state remains highly centralized and concentrated in the presidency and the Blue House staff, even the best-intentioned and well-meaning state power-holders seem to have suffered from short-termism in their approach to and outlook on governance and policymaking—with their horizon at its best bound by the presidential term of five years. Being too mindful of producing quick and visible results and thereby trying to extend their control of state power beyond their term, in fact, the power-holders have often been beholden to the seemingly effective *dirigiste*, *chaebol*-based growth strategy or paradigm, which in their mind had wrought the past economic "miracles." Once in power, presidents or top political leaders around them, both left and right, have tended to act imperially. Further, they have often exploited the state power as if it is a spoils game, while increasingly slighting the supportive role that professional and dedicated policy experts and government-funded think tanks had critically played. In that sense, after fifty years since the publication of Gregory Henderson's *Korea: The Politics of the Vortex*, the image of the vortex still robustly resonates with the way the nation's political economic system operates. As examined in this paper, a plethora of signs suggests that the vortex of rent-seeking behaviors whirls around the central government's money and other resource allocation machine. From this paper's societal or political economic systems perspective, nonetheless, the biggest concern is not at the individual level of corruption per se, even though there is no question about the seriousness of such individuals' power abuse and corruption as Lee Myung-bak and Park Keun-hye, in particular. It is the kind of old, unreformed or unreconstructed *dirigisme* without proper checks and balances that have made such wrongful individual actions possible, and to deal adequately with the systemic-level problems would require systems solutions first and foremost.

Hence, in order for the developmental state not to waste its energy in mismanagement or rent-seeking activities and to directly face and cope with the structural and institutional issues of its own, it needs to rethink about its governance structure at the systems level and reconstruct its organic relations with the society—beyond government reform. The question then becomes how to transform what has at times appeared to be degenerating into a spoils system—into an empowering governance system which can enforce the same rule of law on the *chaebol*, for instance: allowing no inheritance without fair taxation, accounting fraud, or predatory practices. It goes without saying that such a spoils system and mentality seem particularly problematic because of their corrosive effect on the socio-psychological foundations of the state and society, undermining the citizens' as well as the elite's commitment to their work and the energy that they could get from trust, goodwill and human cooperation, which may have a debilitating effect on the societal renewal capacity (See Dore 1987).

This is not to slight the Korean government's effort to adopt and apply principles of democratic governance to the way the state operates and continue to manage the process of the nation's economic development especially in the wake of the 1997 financial crisis. However, its umpteen efforts have as yet to be institutionalized, as there remains a rather huge gap between the hurriedly-adopted formal governance rules and regulations and the practical practices in the processes of everyday policymaking and implementation system. Against such a background, critically re-conceptualizing the relationship between structures and agents may be called for, focusing on the relationship's human interface and problematizing the world of paradigmatic assumptions. State or governance reform and renewal frequently fail on the grounds of human interface even while being implemented. For any governance system's success at renewal, it would have to win over the hearts and minds of citizens as well as of those who produce information, provide services, and manage bureaus and agencies. The stakeholders have to be drawn into the reform process and understand its logic and aims, comprehending why change is desirable and how they can be its co-owners. Such bottom-up movements as the 2017 candlelight protests must have greatly contributed to bringing about real change or reform of the political economic system, clearly signaling that elite collusion or corruption will no longer be tolerated or go unpunished—even though the authorities have long looked the other way, and promoting a fresh systems approach to empowering governance which emphasizes autonomy, individual freedom, and respect for human dignity and professional expertise and dedication. Whether and how the developmental state will actually evolve to overcome and go beyond its current limits to make adaptive changes in the way it operates is well worth the best social scientific minds' attention and critical thinking.

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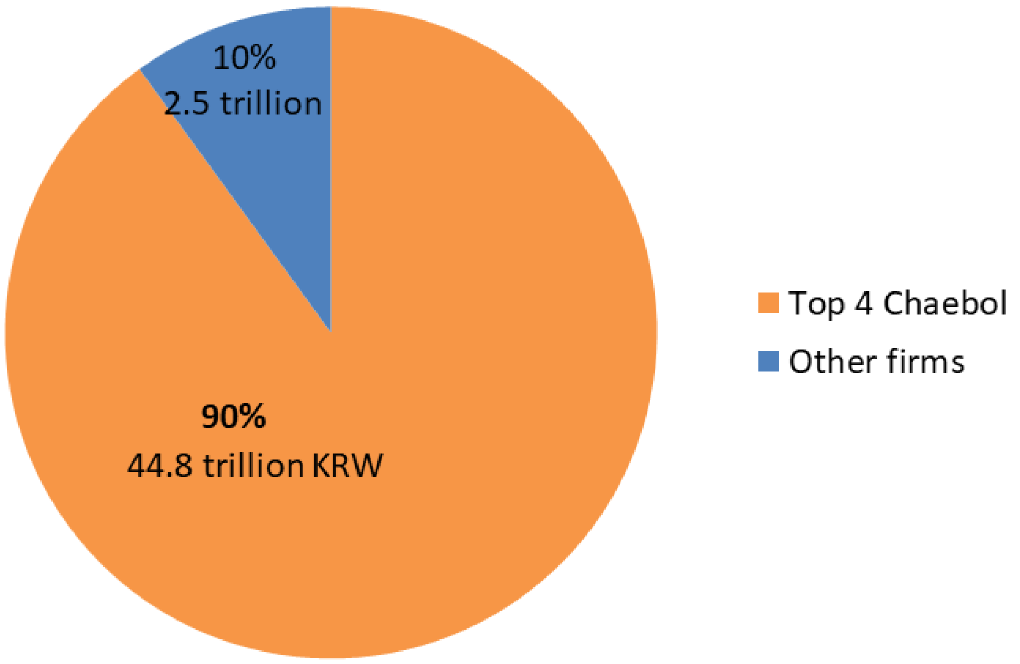
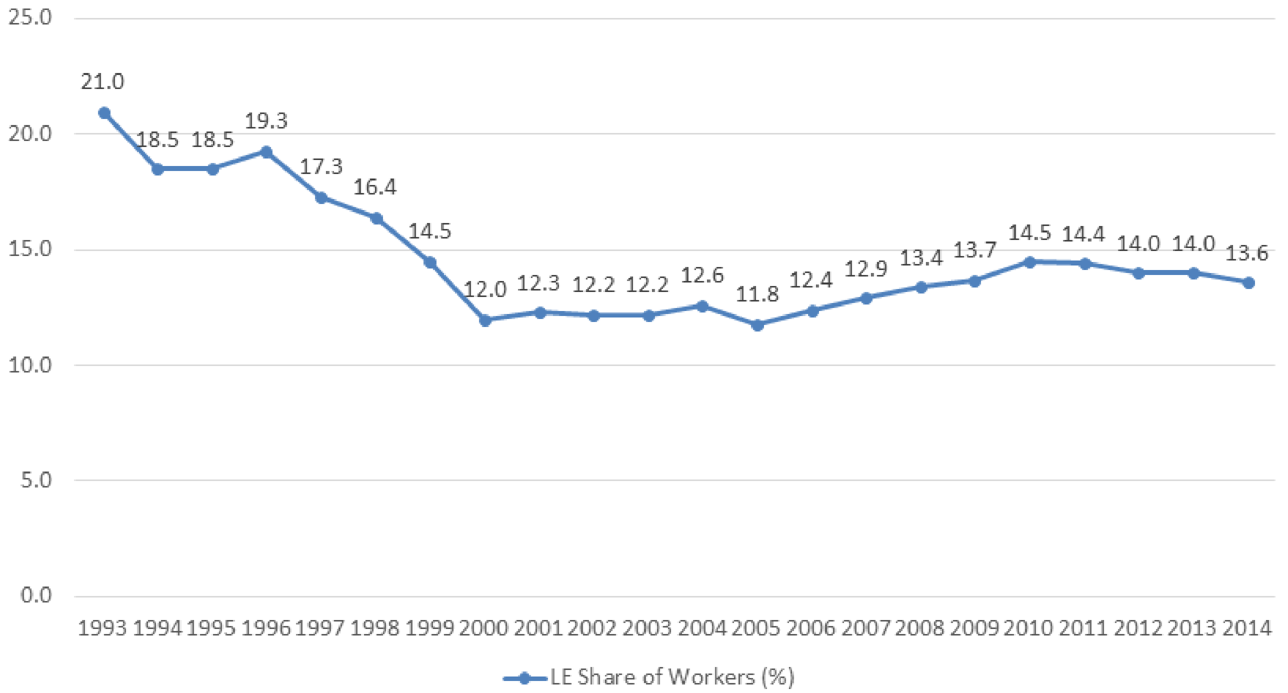
Figure 1. Share of Net Profits: The Top Four vs the Rest of TOP 30 *Chaebol*



Source: Nikkei Asian Review, April 10 2014
http://asia.nikkei.com/magazine/20140410-Growth-Central/Business/Top-four-chaebol-generate-90-of-South-Korean-conglomerate-profits

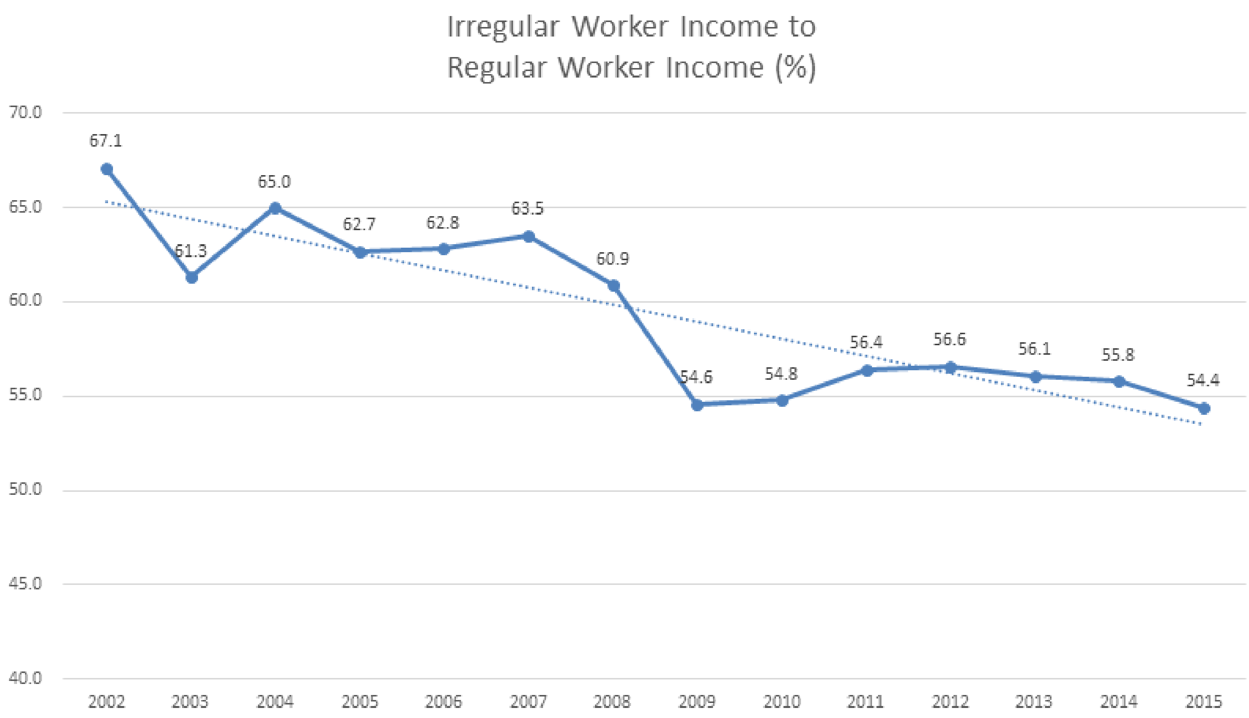
Figure 2. Employment Share of LEs (>300)

(1993-2014)



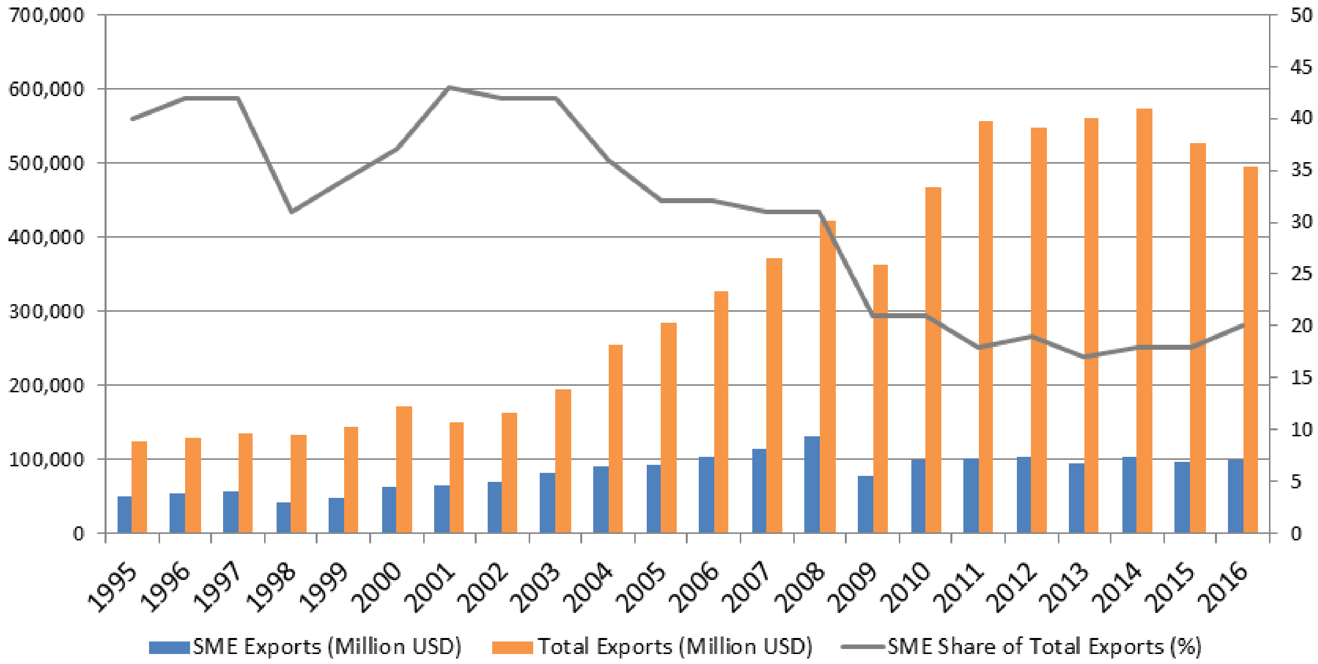
Source: Statistics Korea

Figure 3. Regular Worker vs. Irregular Worker
(Monthly Income)



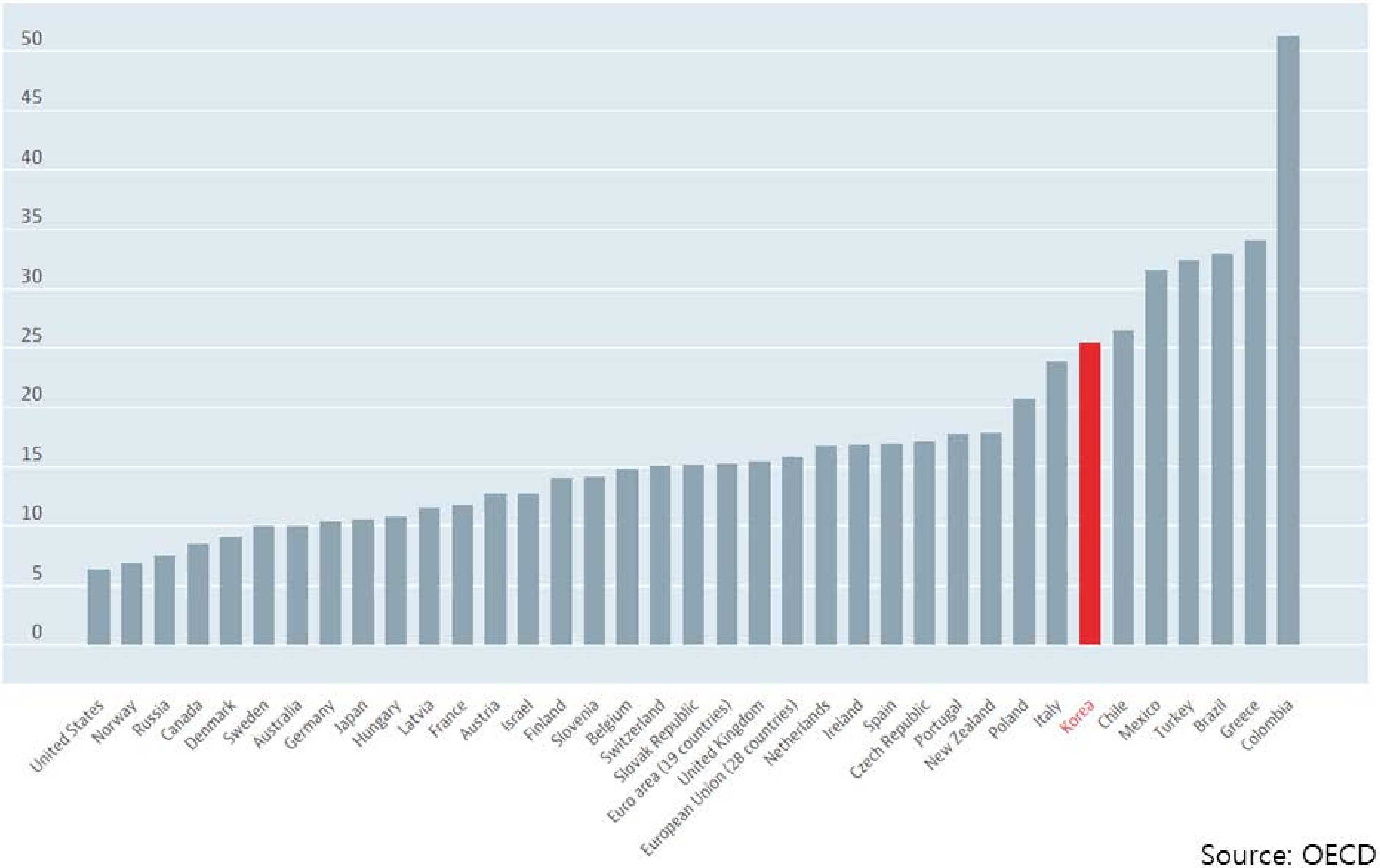
Source: Statistics Korea

Figure 4. SME Exports 1995-2016



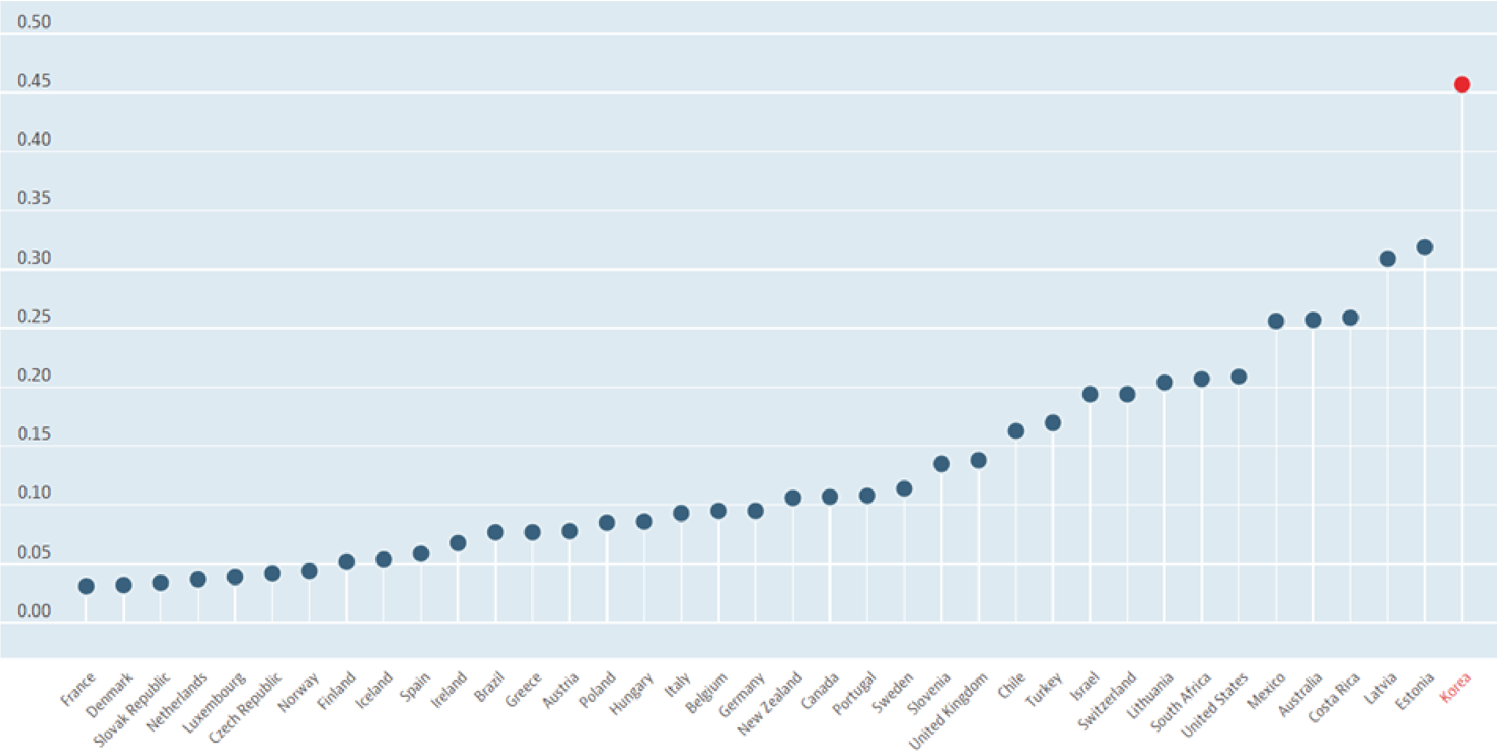
Source: Statistics Korea

Figure 5. Percentage of Self-Employed (2016)



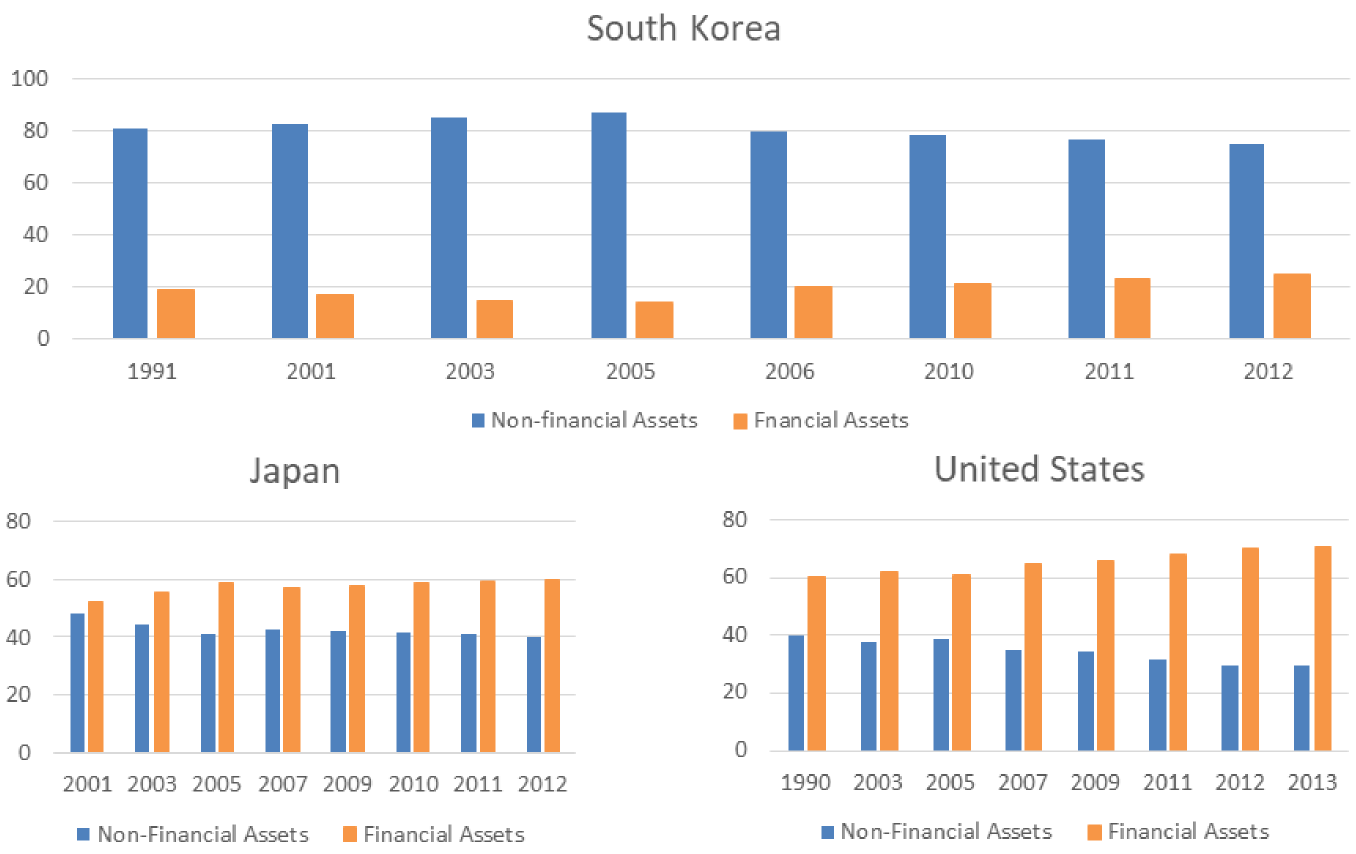
Source: OECD
https://data.oecd.org/emp/self-employment-rate.htm

Figure 6. Poverty Rate, Age 65 or More (2016)



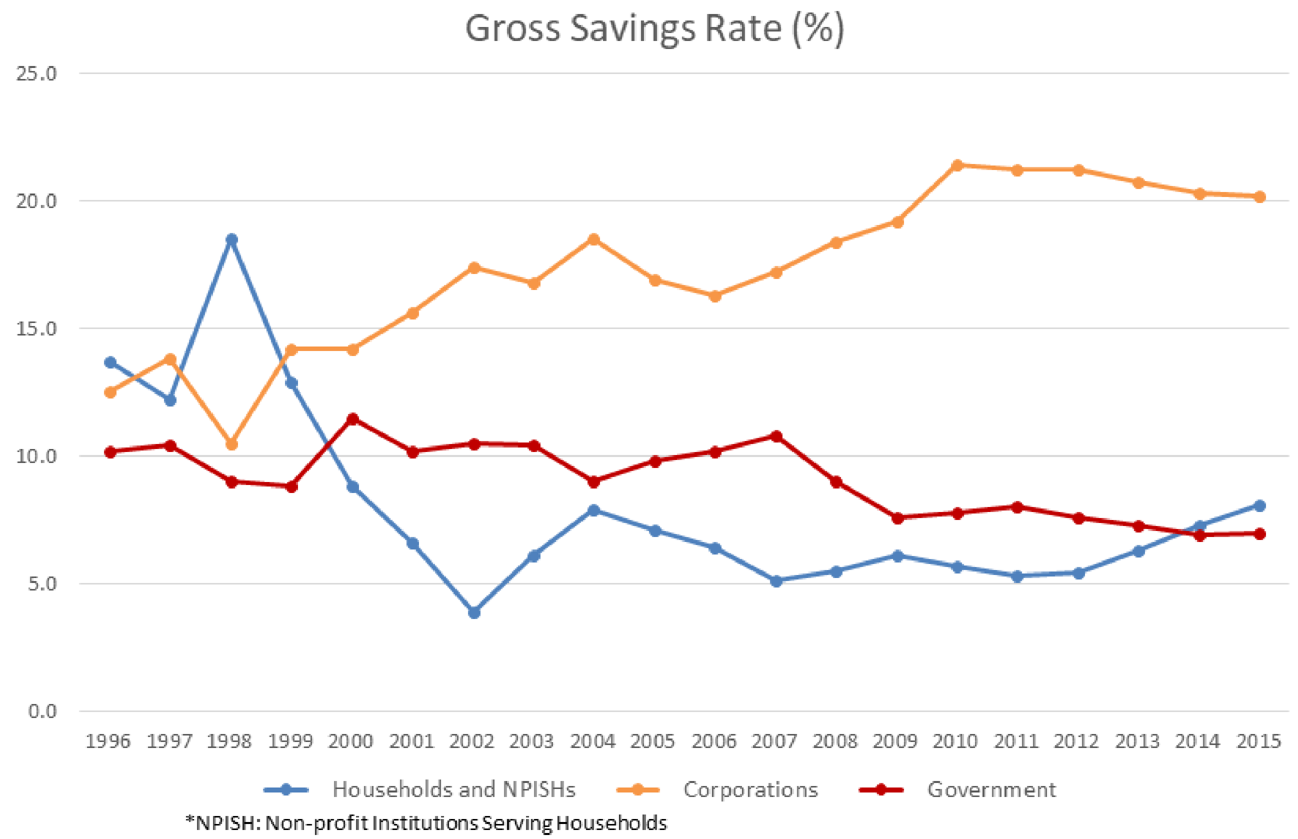
Source: OECD
https://data.oecd.org/inequality/poverty-rate.htm#indicator-chart

Figure 7. Share of Household Assets (%)



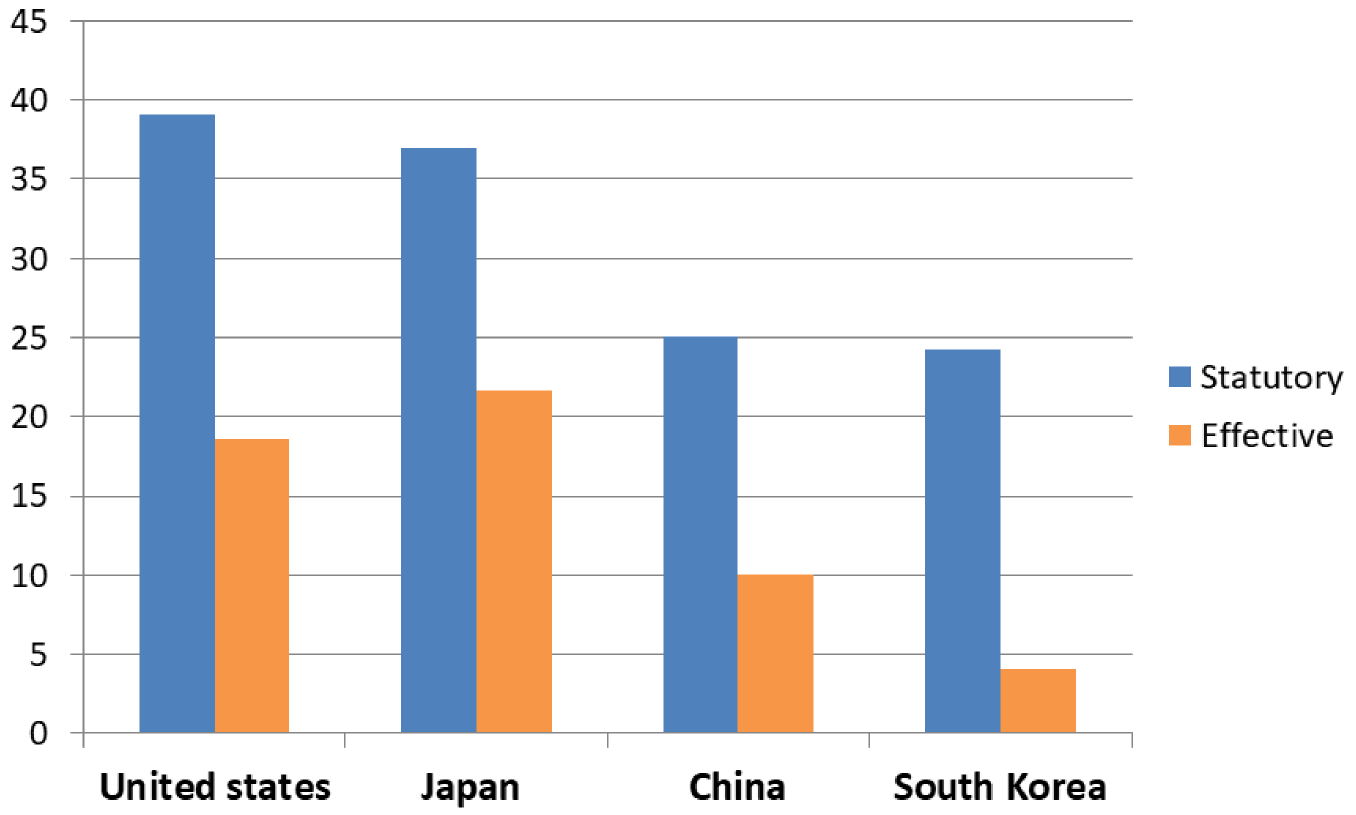
Source: Korea Financial Investment Association, 2014

Figure 8. The Rising Trend of Corporate Savings



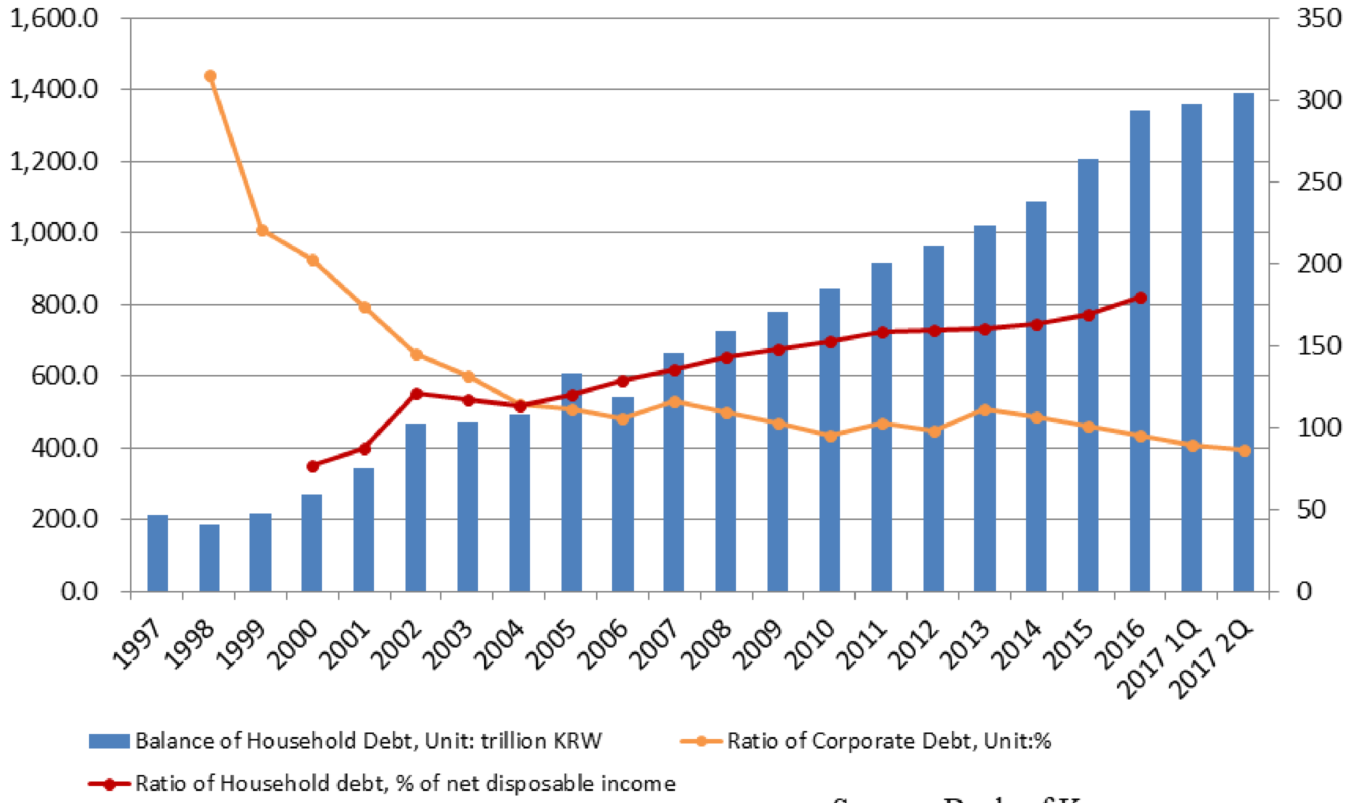
Source: Bank of Korea

Figure 9. Corporate Tax Rates (%)



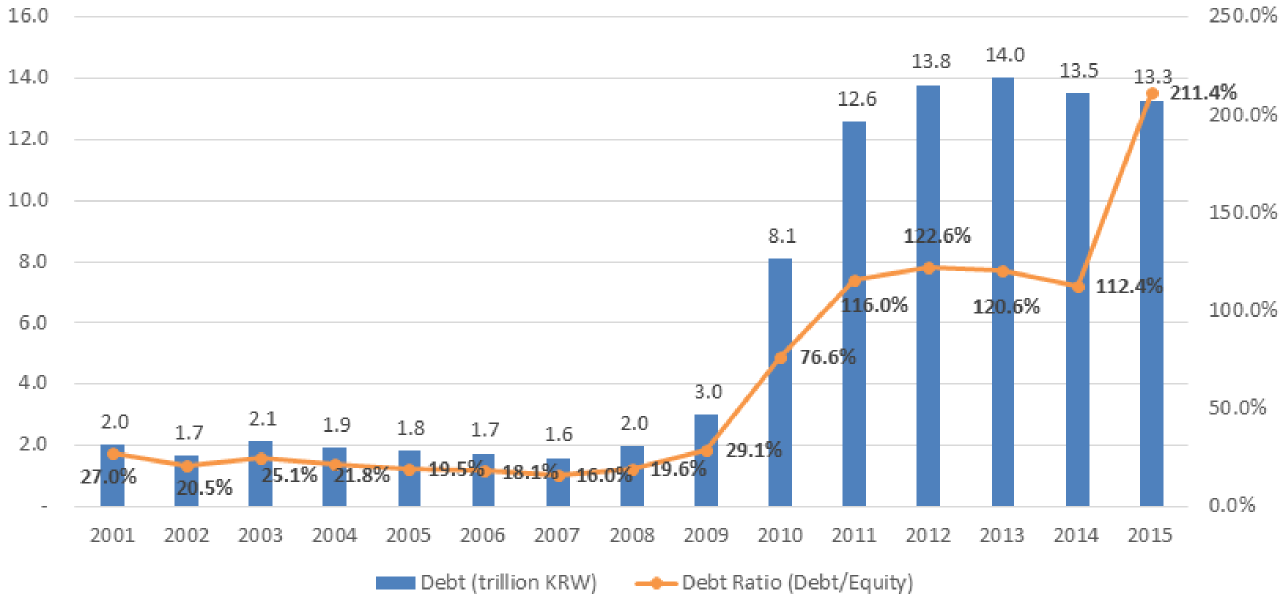
Source: Congressional Budget Office

Figure 10. Household Debt vs Corporate Debt



Source: Bank of Korea,

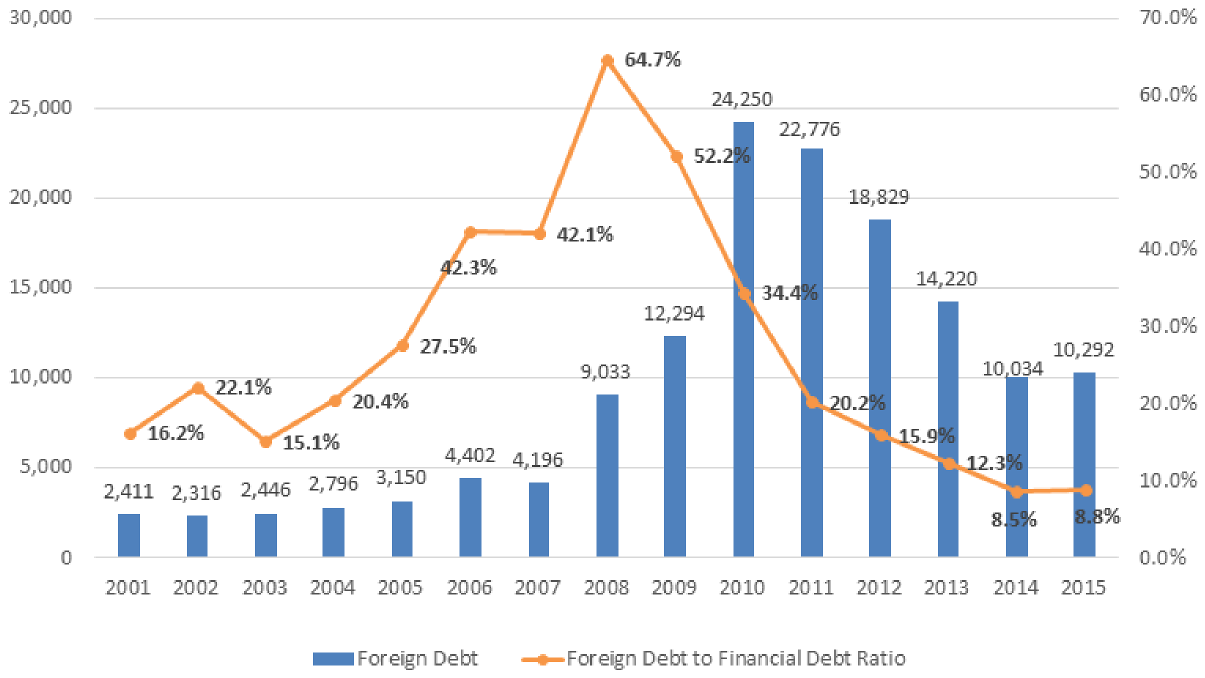
Figure 11. The Four Rivers Restoration Project: K-Water Debt



- Rise in financial debt for funding national projects such as the Seoul-Incheon Waterway Project and 4 Rivers Restoration Project account for 73% of the total rise in debt (8.3/11.3 trillion KRW).

Source: http://www.alio.go.kr/managementItem.do; https://www.kwater.or.kr/water/sub02/sub04/reductionPage.do?s_mid=288

Figure 12. The Four Rivers Restoration Project: K-Water Foreign Debt



Source: http://www.alio.go.kr/managementItem.do

Table 1. Bid Rigging: The Rigged Process and Resultant Relative Shares among Major Construction Companies

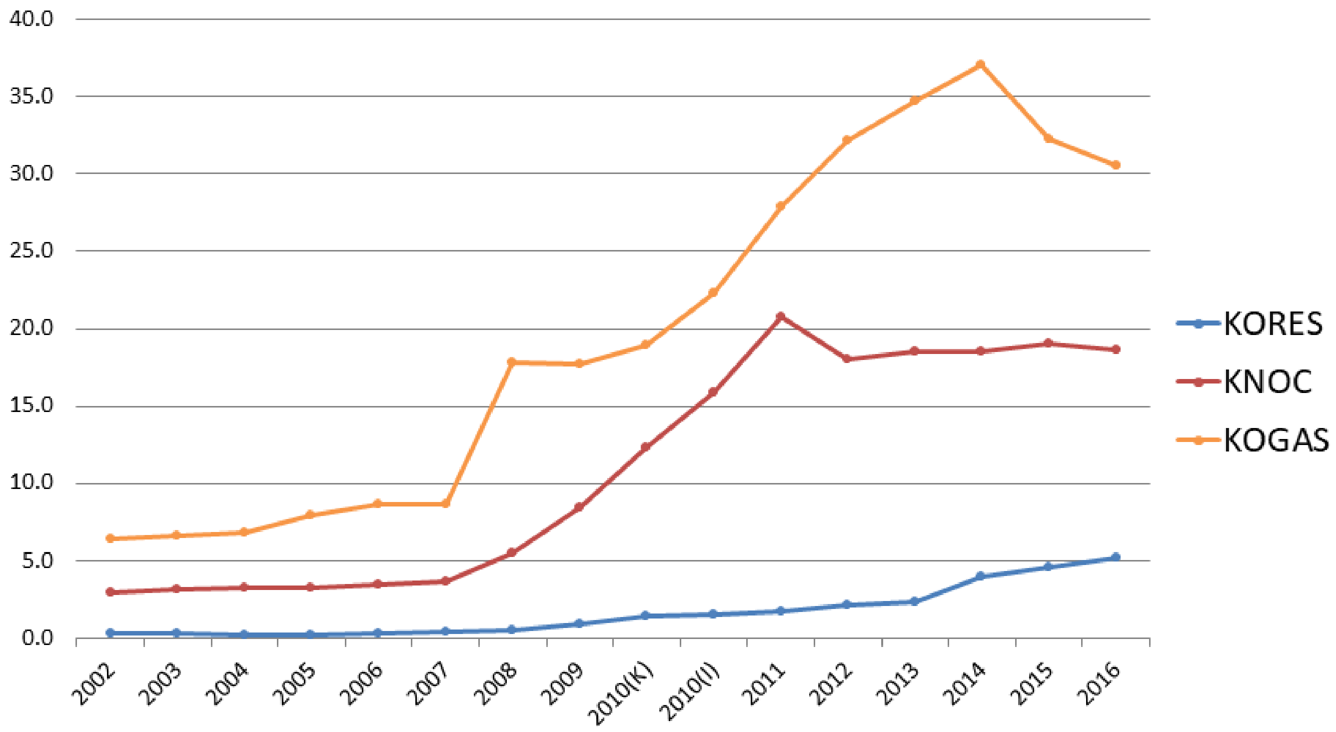
	Rivers	Work Zones	Rigged & Expected Bid Winner	Actual Bid Winner	Bid Result	
					Price (milllion won)	Percentage (%)
1	Han River	Zone 3 (이포보)	Daelim (8%)	Daelim	316,250	7.9
2		Zone 4 (여주보)	Samsung (8%)	Samsung	298,210	7.4
3		Zone 6 (강천보)	Hyundai (9%)	Hyundai	268,532	6.7
4	Nakdong River	Zone 18 (함안보)	GS (8%)	GS	303,006	7.6
5		Zone 20 (합천보)	SK (8%)	SK	248,303	6.2
6		Zone 22 (달성보)	Hyundai (9%)	Hyundai	338,340	8.4
7		Zone 23 (강정보)	Daelim (8%)	Daelim	290,180	7.2
8		Zone 24 (칠곡보)	Daewoo (8%)	Daewoo	382,100	9.5
9		Zone 30 (구미보)	POSCO (9.6%)	POSCO	178,776	4.5
10		Zone 32 (낙단보)	Samsung (8%)	Doosan *	184,536	4.6
11		Zone 33 (상주보)	Hyundai Development (6%)	Hyundai Development	212,058	5.3
12	Geum River	Zone 1 (금남보)	Daewoo (8%)	Daewoo	117,014	2.9
13		Zone 6 (부여보)	GS (8%)	GS	264,550	6.6
14		Zone 7 (금강보)	SK (8%)	SK	169,169	4.2
15	Youngsan River**	Zone 2(죽산보)	-	Samsung Heavy Industries	140,997	3.5
16		Zone 6 (승촌보)	-	Hanyang	298,762	7.4

* Disgruntled by the relatively small size of the total contract it received from the collusion, Doosan decided to enter the bid independently and outcompeted Samsung, the rigged system's designated winner, and won the contract for Zone 32.
** FTA has not called the bidding process for Youngsan River projects rigged or collusive; however, neither the process nor the outcome of the bid which two *chaebol* companies Samsung and Hanyang won really differs from the pattern shown in the others.

Source: Fair Trade Commission
http://www.ftc.go.kr/news/policy/competeView.jsp?news_no=1491&news_div_cd=1

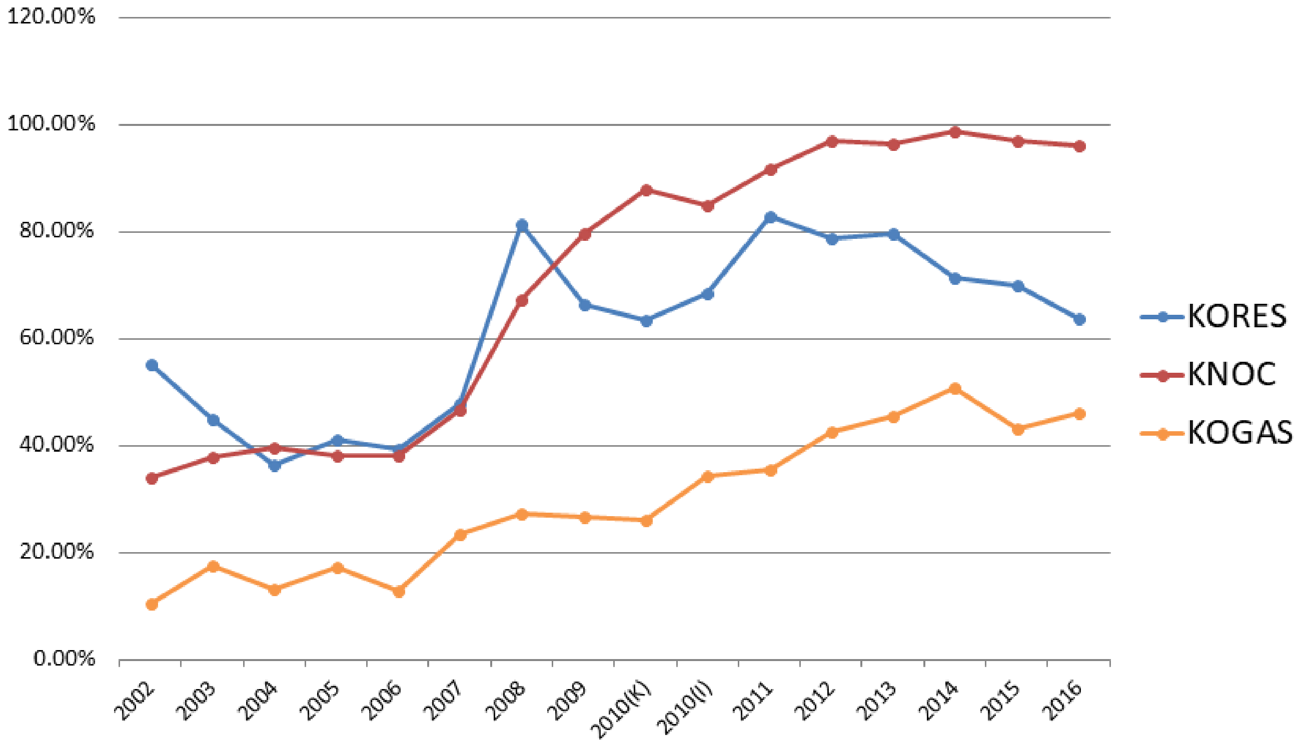
Figure 13. Resource Diplomacy: Energy Corporation Debt

(in trillion KRW)



Source: http://www.alio.go.kr/managementItem.do

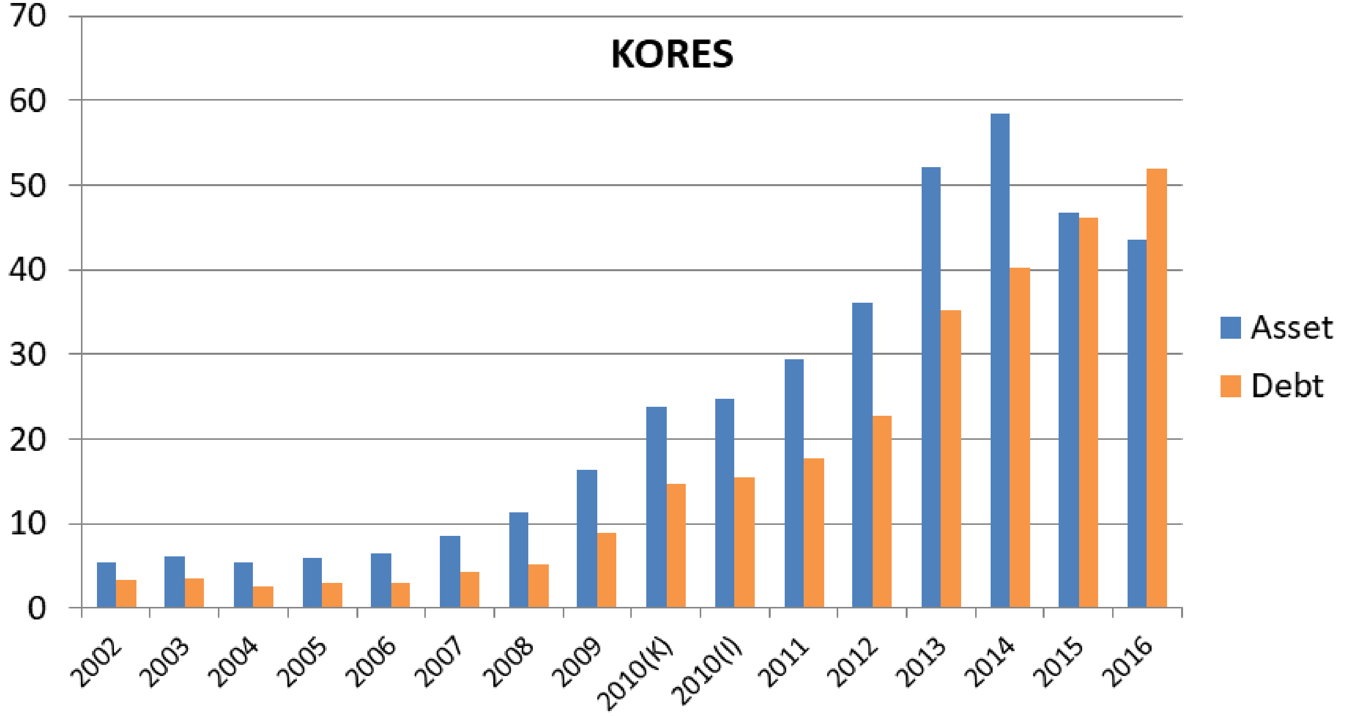
Figure 14. Resource Diplomacy: Foreign Debt to Financial Debt Ratio



Source: http://www.alio.go.kr/managementItem.do

Figure 15. Resource Diplomacy: Energy Corporation Debt

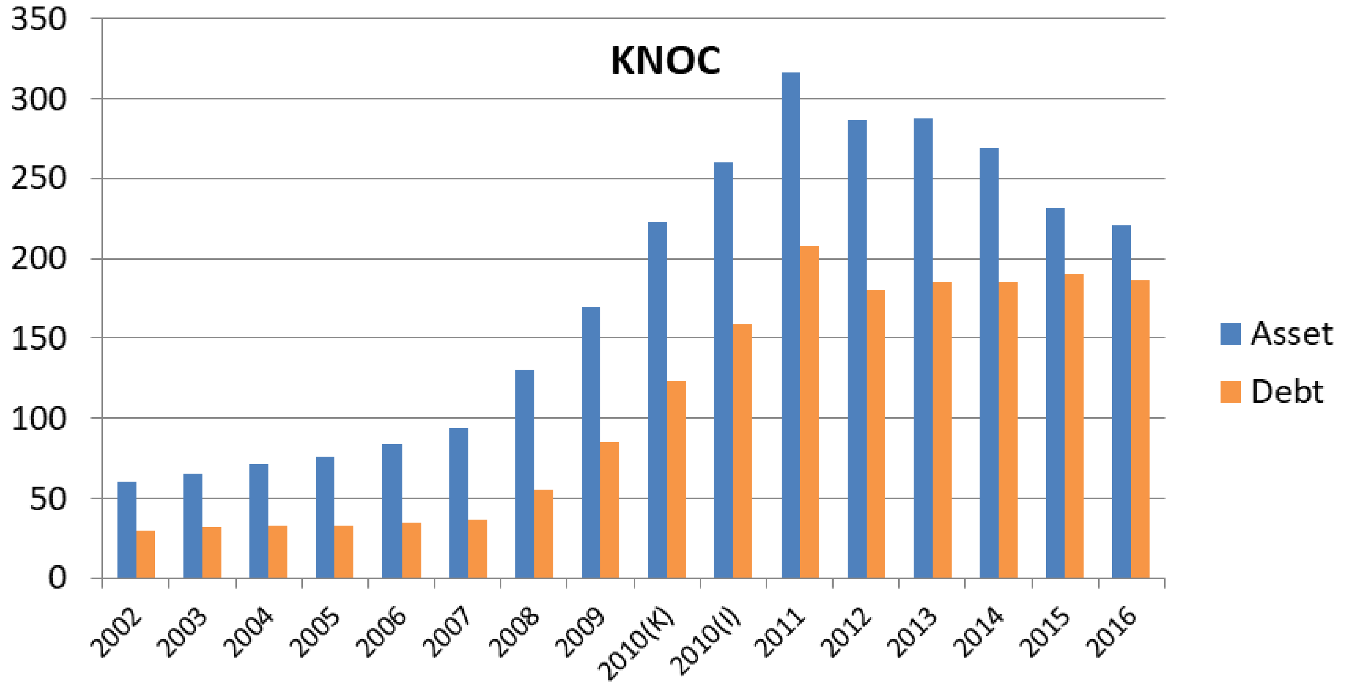
(in hundred billion KRW)



Source: http://www.alio.go.kr/managementItem.do

Figure 16. Resource Diplomacy: Energy Corporation Debt

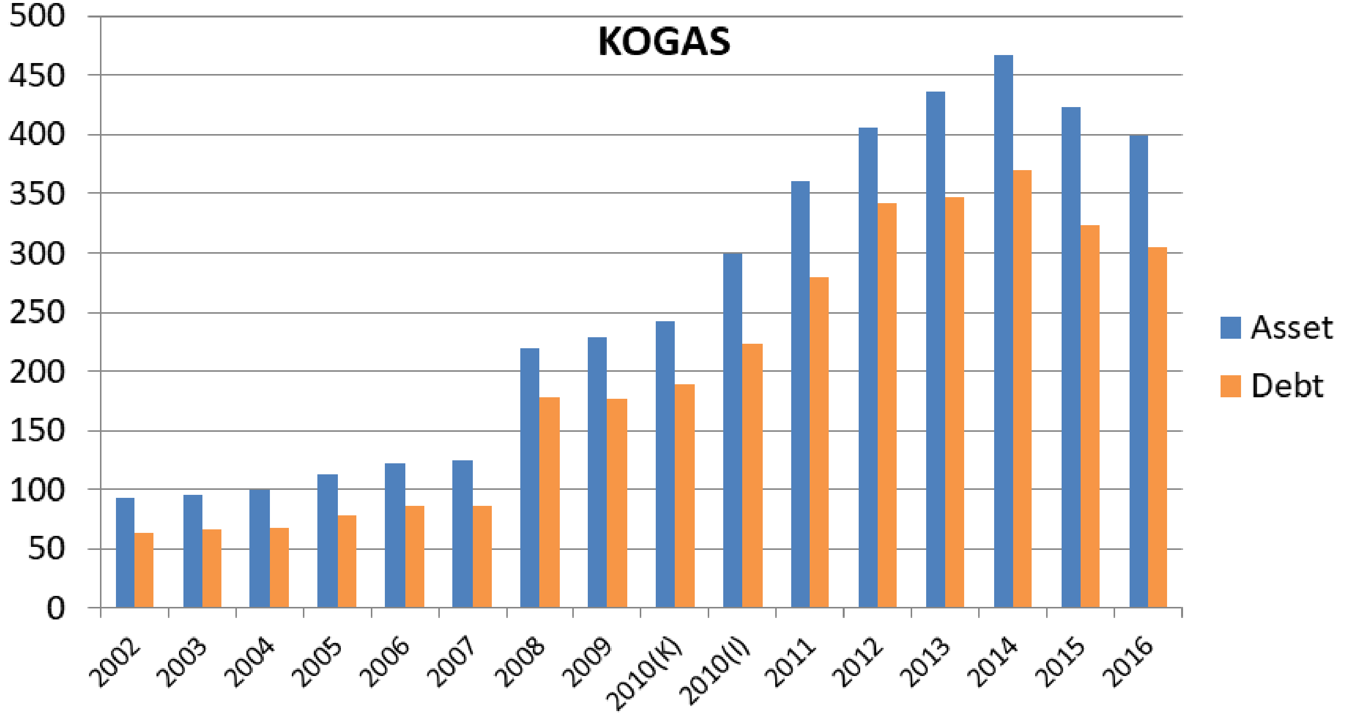
(in hundred billion KRW)



Source: http://www.alio.go.kr/managementItem.do

Figure 17. Resource Diplomacy: Energy Corporation Debt

(in hundred billion KRW)



Source: http://www.alio.go.kr/managementItem.do