Developmental State vs. Globalization: South Korea's Developmental State in the Aftermath of the Asian Financial Crisis of 1997-98*

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Abstract: This paper examines whether the developmental state is able to withstand the pressures of globalization. East Asia's developmental states gained wide recognition for their effective interventionist policies and seemed like one of few organizations capable of standing up against globalization. However, the Asian financial crisis (1997-98) put this to a severe test as the developmental state was under great pressure from international organizations to restructure. We examine how South Korea's developmental state responded to the forces of globalization in the aftermath of the Asianfinancial crisis focusing on a series of public sector reorganizations during the Kim Dae Jung administration (1998-2003). In particular, the paper pays close attention to the government offices that were at the heart of the developmental state and concludes that it is hasty to announce the demise of the South Korean developmental state.

Key words: Developmental state, Globalization, Asian financial crisis, South Korea, public sector reform, Kim Dae Jung.

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I. Introduction

The state seems to be one of only a handful of institutions capable of standing up against globalization. In particular, the highly effective developmental states in East Asia's newly industrializing countries (NICs) appeared to provide justification for a strong interventionist role for the state in the age of globalization in order to ward off the tyrannies of the encroaching free market (Evans 1997: 62-87). For developing countries, the dilemma has been to keep their domestic industries and subsistence agriculture from collapsing under the weight of multinational corporations (MNCs) and agri-business from advanced nations, while at the same time trying to reap the benefits of working inside the world market. The state and international and domestic non-governmental organizations provided the only hope for developing countries when it came to negotiating their interests in the face of the forces of globalization such as the World Trade Organization (WTO) and the International Monetary Fund (IMF).

The Asian financial crisis of 1997-98 put the developmental states in East Asia to a severe test. Would the developmental state of South Korea be able to withstand the forces of globalization as embodied in the IMF and its $58 billion[1] rescue package (and all that went with it)? Or, would the last hope for developing countries in the face of encroaching globalization be completely defeated?

Evans, writing immediately before much of Asia was severely hit by the financial crisis, argued that "a look at the nations that have been most economically successful over the last thirty years suggests that high stateness may even be a competitive advantage in a globalized economy" (Evans 1997: 67). And he wrote that, "East Asian states—from Korea in the North to Singapore in the South with the People's Republic of China in the middle—have used various strategies in which the state played a central role to effect dramatic changes in Asia's

1. Of the $58.4 billion, $21.1 came from the IMF, $14.2 from the Asian Development Bank and the World Bank, and other sources. See Table 4 for details.

position in the international division of labor" (Evans 1997: 69).

However, this highly effective state for economic development—the developmental state—was under direct fire from the IMF to curb its interventions in the market, and the developmental state appeared to have conformed. There seemed to be no alternatives if South Korea was to receive a relief package from the IMF to prevent the world's eleventh largest economy from going bankrupt.

This paper examines how the developmental state coped with the pressures from the IMF and the world market as the process of economic globalization unfolded. Is the developmental state dead? Has it declined and weakened substantially in the face of globalization? Or, has the developmental state survived the pressures of the IMF and found a way to continue to affect the course of its national economic development?

In order to understand how the IMF came to the conclusion to recommend the restructuring of the developmental state in South Korea, we examine the reasoning behind the IMF's interpretation of the causes of the crisis and the IMF's structural mandates to the South Korean Government in Section II. We then discuss how the South Korean developmental state responded to this crisis through a close examination of the Kim Dae Jung administration's (1998-2003) three rounds of public sector reforms in Section III. We focus on how the Kim government reacted to the IMF's demand for a reduction of state intervention in the economy, and the subsequent restructuring of the developmental state.

II. IMF's Mandate to the Developmental State

The sudden collapse of the Asian economies shocked the world since few market observers had anticipated this economic disaster. In July 1997, Thailand first showed signs of a breakdown and soon afterward several neighboring countries including Malaysia, South Korea, Indonesia, Singapore, and the Philippines began to experience similar financial troubles. Among these countries, Indonesia, South

Korea, and Thailand eventually sought bailouts from the IMF and a total of $111.7 billion was extended to these countries. This exceeded any other IMF bailout funds in history.

As a *quid pro quo* for the bailout funds, the IMF requested the South Korean state to implement the package of restructuring measures that it provided in order to help prevent future crises. Their recommendations were based on two assumptions: (1) the state had been caught out in the practice of crony capitalism; and (2) there had been a failure of government, which had led to the mismanagement of foreign capital.

The IMF and many others (Krugman 1997a, 1997b; Heo and Kim 2000)[2] believed that the failure of the state-led economic development model lay at the heart of the 1997 Asian financial crisis. They argued that close government-business relations bred crony capitalism, which led to excessive investment in unprofitable projects. Government guarantees for bailout and the lack of an adequate regulatory system had resulted in moral hazard problems and weak financial systems in the region.

The IMF and others highlighted a more immediate governmental failure in their efforts to cope with the crisis. They argued that an unsound political structure and policy environment could exacerbate, or even trigger a financial crisis. Haggard and MacIntyre (2000: 59) described Thailand's political structure around the crisis period and concluded that Thailand's unstable and inefficient political structure was one of the main causes of the ill management of the crisis:

> Thailand's political structure exerted a powerful and negative influence over the policy-making process. Party fragmentation, intra-coalitional and intra-party conflict allowed serious economic

2. They hold the view that the core causes of the Asian financial crisis were the distorted domestic markets. They highlighted the fundamental weakness of the Asian model compared to others, who focused on the external market conditions on which they blamed the crisis. The former view is held by many neo-classical economists(e.g., Krugman [1997a, 1997b], Heo and Kim [2000]) as well as the IMF, while the latter is held by Radelet and Sachs (1997), Sachs and Woo(2000), and Bhagwati(1998).

> problems to accumulate, thus contributing to the outflow of capital and setting the stage for the currency crisis. We can see the same factors limiting Thailand's ability to respond aggressively once the crisis broke. Widespread public disillusionment with the system and its alarming impotence in the face of the crisis propelled the introduction of dramatic constitutional change in the latter part of 1997.

In a comparative study of Thailand and Indonesia, MacIntyre (1999) wrote that the collapse of confidence on the part of investors was "a function of investor calculations not only about the likely behavior of other investors, but also about how particular countries' governments would respond to the unfolding crisis" (McIntyre 1999: 143). Many studies of South Korea singled out the failure of the Kim Young Sam government in managing the crisis.[3] Heo and Kim (2000) summarized South Korea's political situation around the crisis period as, "[a] lame-duck president, the opposition's resistance to reform legislation and labor union actions added to the government's difficulties in responding to the warning signs of an impending financial crisis" (Heo and Kim 2000: 505).

The IMF and others argued that there were deep-seated flaws in the Asian model. They criticized the governments of the crisis countries for their excessive economic growth targets, too many incentives to firms to make unregulated investments, and too many incentives to domestic banks to borrow in excess from abroad to finance dubious investment projects (Roubini 1998). Krugman, who is one of the strongest critics of the "Asian miracle," argued that the 1997 Asian financial troubles proved that "there's nothing superior about Asian values" (Krugman 1997b). Criticizing the incompetence and inaction of most of the Asian governments during the crisis, including the Japanese Ministry of Finance, Krugman argued that "the biggest lesson of the Asian crisis is not about economics; it's about governments"

3. For more about the Kim Young Sam administration and the Asian financial crisis, see Hart-Landsberg and Burkett (2001), Heo and Kim (2000), and Moon and Rhyu (2000).

(Krugman 1997a).

Given the reasoning behind the structural reform package proposed by the IMF, it is not surprising that the IMF insisted on fundamental changes to the economic and institutional structures of the crisis countries as a condition for receiving the bailout funds. The initial program of economic reform as requested by the IMF to the South Korean government is as follows (IMF 1999, 13-17):

- comprehensive financial sector restructuring that introduced a clear and firm exit policy for financial institutions, strong market and supervisory discipline, and independence for the central bank;
- fiscal measures equivalent to about 2 percent of GDP to make room for the costs of financial sector restructuring in the budget, while maintaining a prudent fiscal stance. Fiscal measures include widening the bases for corporate, income and VAT taxes;
- efforts to dismantle the nontransparent and inefficient ties among the government, banks, and businesses, including measures to upgrade accounting, auditing, and disclosure standards, require that corporate financial statements be prepared on a consolidated basis and certified by external auditors, and the phasing out of the system of cross guarantees within conglomerates;
- trade liberalization measures, including setting a timetable in line with WTO commitments to eliminate trade-related subsidies and the import diversification program, as well as streamlining and improving the transparency of import ertification procedures;
- capital account liberalization measures to open up the Korean money, bond, and equity markets to capital inflows, and to liberalize foreign direct investment;
- labor market reform to facilitate the redeployment of labor; and
- the publication and dissemination of key economic and financial data.

Among these, the following three measures focus on the IMF's request for the developmental state reform: (1) a firm exit policy for financial institutions; something which has traditionally been difficult under the developmental state framework; (2) strong market and supervisory discipline calling for a strong role played by regulatory institutions; and (3) the removal of inefficient ties among the government, banks, and businesses, in which the developmental state was at the center.

Ⅲ. The Developmental State's Response in the Face of Globalization

Then how did the Kim Dae Jung government respond to this pressure from the IMF? Under the watchful eyes of the IMF, the newly elected President Kim Dae Jung announced in February 1998 that his administration's main goal was to simultaneously attain a market economy and democracy. The following is an excerpt from Opening Tomorrow with the People, a book detailing President Kim's goals for his troubled nation (Government of the Republic of Korea 1998: 73)[4]:

> Establishing a market economy does not mean that the government should stay away from the economy. Although there is a need to reduce government intervention through deregulation, there is also a need to expand its role when the market mechanism does not work effectively... Therefore, the government should play an active role in order to establish the foundation for a market economy, and it should "help and foster" and not intervene, in the economy.

The Kim Dae Jung administration concurred with the IMF that the only way to resuscitate the South Korean economy was to completely and rapidly reform the market, even though the market would temporarily experience severe suffering. This involved restructuring in four sectors: public sector, corporate sector, financial sector, and labor.

We focus on the public sector reforms, which included reorganizing and reducing government offices and personnel; reforming government-funded organizations; introducing innovation to government management; privatizing state-owned enterprises in

4. The book was written in Korean and the text was translated by the author.

order to improve efficiency and productivity; streamlining local government; and eliminating the excessive number of regulations to enhance transparency in the corporate, financial and public sectors (Ministry of Finance and Economy 1999). Downsizing the government was important as it would raise efficiency levels, and a reduction in the budget would also follow in the order of forty to fifty percent of the gross domestic product (GDP) (Maeil Kyungje Shinmun June 3, 1998; Ministry of Finance and Economy 1999). Thus, the public sector reform focused on corporatizing the government, restructuring government organizations, and extending performance-based incentives into government management in the state bureaucracy as well as in state-owned enterprises.

Data and Analysis

We begin with an empirical definition of the developmental state with a narrow focus on the economics ministries that perform specific functions for economic development. The concept of the developmental state has been used in very general terms in the literature, and often includes the President's office (or, Prime Minister's office in the case of a parliamentary government system), the executive branch (economics ministries), and state-owned or public enterprises (Amsden 1989; Evans 1995; Haggard 2004; Johnson 1982; Johnson 1987; Kim 1997; Kwon 2001; Wade 1990; Woo-Cumings 1999). However, there have been relatively few attempts to closely analyze the specific economics ministries that play the key role in the functioning of the developmental state. In addition, many developmental state studies were ex post facto analyses of the developmental state, making it difficult to establish a causal relationship between specific features of the developmental state and economic development.[5]

Recognizing their importance in shaping the general institutional framework of the South Korean administration, this paper argues that

5. See Haggard (2004) for a critical analysis.

the economics ministries have been at the center of the developmental state. Therefore by closely examining changes in these ministries, we shall be able to have a better understanding of the nature of the South Korean developmental state.

The economics ministries in a developmental are the offices in charge of economic planning, industrial policies, budget, and finance (Amsden 1989; Johnson 1982; Kim 1997; Wade 1990). They are mainly responsible for distributing economic resources for the goal of economic development, and managing the national economy. In South Korea, the economics ministries have occupied a dominant place in the administrative branch since the Park Chung Hee era (Kim 1997; Kwon 2001). For example, according to the South Korean constitution during the Park era, "if the President can not perform his role due to an accident or if the position becomes vacant, the Prime Minister, and Ministers of State, according to the order defined by law, will act as proxy" (Kwon 2001: 66). Originally, the Economics Planning Board (EPB) was the highest in rank among all government ministries, and later when it merged with the Ministry of Finance (MOF), the newly established Ministry of Finance and Economy (MOFE) became the highest ministry in the government (Kwon 2001).

This paper utilizes government data on the number of personnel in each government ministry and in the offices of the National Government[6] supplied by the Ministry of Government Administration and Home Affairs (various years). The empirical definition of the developmental state adopted in this paper is the economics ministries involved in economic planning, industrial policies, budget, and finance. This definition includes the following ministries: (1) the Ministry of Finance and Economy [MOFE], (2) the Ministry of Commerce, Industry and Energy [MOCIE], (3) the Ministry of Planning and Budget [MPB], (4) the Fair Trade Commission [FTC], and (5) the Financial Supervisory Commission [FSC]. Although there are other ministries and offices that play the above roles—i.e.,

6. The term will be used interchangeably with "central governmen" in this paper.

economic planning, industrial policies, budget, and finance—the five ministries listed above are considered to be the key ministries. In addition, there are sub-divisions within each of the five ministries that may not perform roles in the developmental state. However, since data on the breakdown of each sub-division was not readily available, we have utilized the total number of each ministry as a proxy for the developmental state's personnel.

Within the developmental state ministries, we further divided the ministries based on their primary role—i.e., industrial policy vs. regulatory policy. According to this classification, we included MOFE, MOCIE, and MPB as industrial policy ministries, and FTC and FSC as regulatory ministries. This sub-division will help us understand the changes within the developmental state.

We focus on the number of personnel involved in these key developmental state ministries to gain an empirical understanding of the changes in the developmental state. It is clear that size alone does not necessarily mean "power" and "influence" in the government bureaucracy as can be seen in the case of South Korea's EPB in the 1960s—i.e., it wielded tremendous influence throughout the government even with a relatively small number of staff (Kim 1997). However, *relative change* in the size of personnel is an important indicator of its shifting power relations within the government. Furthermore, we also utilize detailed information about changes in the *functions and roles* of the ministries. Thus, the combined information about the number of personnel and main functions of the ministries will provide us with a good proxy for the relative influence of each ministry in the developmental state in the absence of qualitative information on this matter.

South Korea's economic government offices experienced major changes in their organizational structure. At the height of the developmental state era during the Park Chung Hee administration (1962-79), the EPB and the MOF were the two most powerful and central economic agencies: the former was mainly in charge of planning and budget and the latter was largely responsible for managing finances. During the Kim Young Sam era (1992-97), the EPB was merged into the newly established Ministry of Finance and Economy (MOFE). However, as mentioned earlier, with the breakout of the 1997 Asian financial crisis, the South Korean economics government offices were heavily criticized by the IMF and experienced large-scale reforms. In the following sections, we will examine public sector reform during the Kim Dae Jung period (1998-2003), focusing on changes in the major economics ministries of the developmental state.

1. First Government Reorganization (January - February 1998)

The first public sector reform took place in January 1998 with the goal of attaining a "smaller, but more efficient" government. The Commission for Government Reorganization finalized its plan, by which the existing structure of 2 boards, 14 ministries, 5 agencies, and 2 offices was reorganized into 16 ministries, after the abolition of ministries and agencies. Major changes included the following:

- The Ministry of Finance and Economy (MOFE) was divided into the MOFE, the Planning and Budget Commission (PBC), and the Office of National Budget. Allocation and the responsibility for the coordination of the national budget was taken away from the old MOFE and placed in the hands of the new PBC, under direct presidential control, and the Office of National Budget became independent from MOFE with an increase in personnel;
- Central Personnel Commission was given responsibility for the management of high-level public officials including increases in personnel and the compensation of public officials;
- The Ministry of Trade, Industry and Energy (MOTIE) transferred its trade-related functions to the new Ministry of Foreign Affairs and Trade (MOFAT);
- Responsibilities of the Fair Trade Commission (FTC) and the Financial Supervisory Commission (FSC) were increased in terms of audits, inspection, and autonomy in accordance with the government's reform initiatives (especially in corporate

restructuring); and

- Office for Government Coordination was expanded and given the responsibility for overseeing deregulation, to which resistance from major ministries was expected (*JoongAng Ilbo*, January 27, 1998; *Hankyoreh Shinmun*, January 27, 1998).

The government reorganization was followed by a plan to lay off 17,000 public officials within three years, equal to ten percent of the total employed in central government. An additional ten percent layoff of regional public officials was to take place within the PBC. Government reorganization—or to put it more accurately, the downsizing of the public administration—was implemented on the basis of three principles: 1) the slimming down of the government organization in size and the number of its officials in order to reduce redundancy in functions; 2) the transferring of functions from the central to regional governments and the private sector; and 3) the empowering of the organizations in charge of enhancing national competitiveness and the quality of life.

In accordance with the reorganization and layoff plan, direct control of the national budget planning and personnel management of high-level public officials was reinforced and this provided a fast-track to the authority of President Kim Dae Jung for the solution of the nation's economic problems. On the other hand, the separation of powers which resulted from the placing of the budget functions in the Blue House, while placing fiscal and financial functions in the administration, led to difficulties in the coordination and integration of economic policies (Kyung Hyang Shinmun January 25, 1998).

The most notable outcome of the first government reorganization was the decline in the importance of the MOFE. As Okyu Kwon, deputy minister in MOFE, noted in an interview, MOFE was blamed for the financial crisis since MOFE had been a super ministry among the ministries.[7] By way of punishment, MOFE was forced to transfer its

7. Interview conducted by Dr. Richard Phillips in October 2001 as part of a project on South Korea. See Henderson et al.(2002).

'golden' functions to the newly separated PBC, the Office of National Budget, and the greatly enhanced FSC. What had made the MOFE so powerful in the past was its budget planning function (allocation and coordination), inspection of financial institutions and coordination of trade negotiation policies. When these 'golden' functions were transferred to the PBC, FSC, and the Prime Minister, respectively, MOFE experienced an 'identity crisis,' and failed to coordinate and integrate the government's economics policies.

While the MOFE experienced a serious decline in its influence, the FTC and the FSC, which were both under the direct authority of the Prime Minister, were elevated to a far more powerful position among the government agencies. The FTC, which was now in charge of *chaebol* reform, had been unsuccessful in the past due to close and collusive political-economic ties. However, the enhanced FTC was able to fully assume its role in inspecting the transparency of management in chaebol businesses (e.g., as shown in the case of SK's illegal transfer of stocks). Furthermore, the FTC became powerful enough to inspect and intervene in the policies of other government ministries.[8] The FSC had also become a powerful institution for government intervention in the financial sector reform. Thus, it is important to note that a few governmental offices, which were mainly in charge of structural reform and regulating the private sector, gained prominence in the first government restructuring.

The major tasks of public sector reform in 1998, which was the first year of reform, were implemented as follows: 1) representatives of

8. In February 1998, the FTC blocked the Ministry of Government Administration and Home Affairs in their attempt to return to the old Government Organization Law, which denies individual ministries the autonomy to decide their own organizational structures, thus requiring the approval of the Ministry of Government Administration and Home Affairs. Another case would be the embarrassment of the MOFE when it tried to excuse companies already in bankruptcy procedures from mandatory disclosure of their consolidated financial statements. The FTC strongly resisted any exceptions, for this would nullify the aim of the original purpose of introducing the policy; viz. accurate accounting of the financial structures of companies. See *JoongAng Ilbo*, April 8, 1998.

each organizations were held responsible for their own reform in the restructuring of government-supported organizations. However, the proceeds from the sale of assets of some organizations and savings from efficient management were returned to the central government instead of being reinvested in these organizations; 2) as a result of the local administration reform, the size of the local governments was reduced by 12 percent in 1998. Due to the abolition of 175 departments and 1,034 divisions in local governments, the number of public officials laid off amounted to 7,361 in the major cities and 27,316 in the provincial/rural areas. This reform saved $1.6 billion in the total budget; 3) the government decided to adopt a Senior Executive Service (SES) system starting in 1999. Under this system, high-ranking government officials are subject to contract renewal, based on annual reviews of performance and management efficiency. Decisions on the allocation of tasks and wages to these upper-level officials and representatives of government-supported organizations were to be made by SES; 4) the Office of National Budget would strengthen its responsibility for the inspection of budgetary spending starting from the first quarter of 1999; and 5) government-supported projects, which included the construction of the express railway, were reviewed and adjusted.

2. Second Government Reorganization (March-April 1999)

Following a public hearing on March 8, 1999 of the proposal for the second reorganization of the government, the Minister of Government Administration and Home Affairs, Kim Ki-Jai announced a comprehensive government reorganization plan on May 17, 1999. In March 1999, hearings were held by a committee comprised of government officials and civic groups, which presented the following recommendations: 1) the function of coordinating the nation's economic policy should be transferred from the direct control of the president's office to ministerial level; 2) the cabinet meeting for economic policy coordination was to be abolished and the MOFE was to be in charge of coordinating and developing national economic policies; 3) two different budgetary offices, the Office of National Budget and the PBC, were to be merged and the new entity placed under the jurisdiction of the Prime Minister. The new entity was to be named the Ministry of Planning and Budgeting; and 4) the supervisory role of the MOFE over private financial institutions and government-invested banks was to be transferred to the FSC. However, most of the proposals were not adopted in the government's second round of reorganizations.

One characteristic of the second restructuring which is worth noting is that government branches engaging in similar functions were merged or unified in order to meet the aim of a "smaller, but more efficient" government. For example, all responsibilities related to the allocation of resources, such as budget planning and management of public investment were placed under the control of Ministry of Planning and Budget (MPB). The MPB had become a separate ministry with greater influence than it had had in the first round of reform, when the Office of National Budget was only a sub-division of the PBC. In addition, the task of developing foreign investment policies and legislation, which had been one of the MOFE's responsibilities, was transferred to the Ministry of Commerce, Industry and Energy (MOCIE). The financial supervisory functions of MOFE were unified within the FSC. Although legislation related to financial activities remained at MOFE, the FSC's major functions came to include the authorization and approval of special banks as well as the supervision, examination, and enforcement of the business activities of financial institutions. Thus, the role of MOFE became limited to tax, national treasury, inflation and economic policy. Regarding the changing role of the MOFE, Dr. Ha-Won Jang at the Korea Development Institute argued that, "the Korean economic bureaucracy was apparently in decline. This was because its sphere of influence and autonomy to implement policies was greatly reduced. The problem was that the country had lost its long-term vision given the death of planning."[9]

However, many observers have voiced the criticism that the second reform targeted institutions that lacked power and authority. In fact, the Ministry of Information and Telecommunications and the Ministry of National Railroad Administration were expected to let 7,035 of its officials go, which amounted to approximately 75 percent of the total South Korean government layoffs. If we include the 559 government officials in the Ministry of Maritime Affairs and Fisheries, who were to be laid off, the figure goes up to nearly 80 percent (*Korea Daily News* January 25, 1999).

According to the second government reorganization plan, an additional 8,400 following 17,600, who had already been dismissed in February 1998, would lose their jobs. The first and second government restructuring plans for downsizing between them cut the posts of 26,000 civil servants, or 16 percent of the total workforce. The numbers are large enough to give the impression that the administration was fully committed in making a "smaller, but more efficient government." But in reality, among the 17,600 civil servants to be laid off in the second reorganization, only 9,000 lost their jobs by the end of the second reorganization. Moreover, most of those who did so, were low-ranked government employees, and were in local government rather than the central government.

3. Third Government Reorganization (May 2000-2001)

The most significant change in the third government reorganization was the reinstatement of the Deputy Prime Minister. In the aftermath of the financial crisis, the Deputy Prime Minister and the chief economic advisor of MOFE were heavily criticized for the financial crisis and were even taken to court. In consequence, the first government reform abolished the position of Deputy Prime Minister. This move was initially aimed at enhancing the role of checks and balances within the ministerial system through a more balanced and efficient organizational structure. However, demoting the Deputy

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9. Excerpted from the interview conducted in October 2001 at the Korea Development Institute by Dr. Richard Phillips. See Henderson et al.(2002).

Prime Minister resulted in a lack of coordination and integration in the implementation of government policies. Thus, the third government reorganization reinforced the Minister of Finance and Economy and the Minister of Education and Human Resources Development by giving the position of Deputy Prime Minister to both ministries.

As the three rounds of government reorganization proceeded, the Kim Dae Jung administration's initial goal of transforming the state into a "smaller, but more efficient" government gradually receded. Table 1 summarizes personnel changes during the Kim Dae Jung government's public sector reorganizations in the central government ministries. Contrary to the initial objective, after three rounds of government reforms, the size of the government bureaucracy increased from seventeen ministries, four agencies and four offices to eighteen ministries, four agencies, and twenty-nine offices as of January 2001 (Yoo 2000). Moreover, the layoff of public officials affected low-level personnel rather than high-ranking officials. While the number of high-ranking officials decreased from 1,275 in March 1998 to 1,250 in April 2001, showing only a modest decline of 1.96 percent, the number of low-level officials showed a more significant downsizing by 9.78 percent, from 199,237 to 179,776 in the same period (Chosun Ilbo November 20, 2001).

Although the total number of government officials continued to decrease until 2001, the overall change was marginal (from 553,561 to 548,003, which is a decrease of 1%). And the total number actually went up in 2002, which was the last full year of the Kim Dae Jung administration, to 562,373 (an increase of 8,812 or 1.6% since 1998). In 2001-2002 the increase was relatively sharp with 2.6% in just one year. One important reason why the Kim Dae Jung administration relaxed its stance on public sector reform in 2002 might well be due to the early re-payment of IMF structural loan on August 23, 2001. This was almost three years ahead of schedule. Without the watchful eye of the IMF and pressure from it to push ahead with massive restructuring programs, the Kim Dae Jung administration may have decided to relax some of its reform programs.

Table 1. Personnel Changes in the Restructuring of the South Korean Government, 1998-2002[1)]

Government Offices	1998	1999	2000	2001	2002
◆National Security Council	12	12	12	12	12
◆Advisory Council on Democratic & Peaceful Unification		62	62	62	61
◆Board of Audit & Inspection	822	892	892	892	892
♣Office of the Prime Minister	71	81	81	81	81
Office of administrative coordination				935	
Public Procurement Service	1,001	935	935	935	935
Ministry of Science & Technology	429	402	402	406	411
Ministry of Unification	498	387	387	402	418
Ministry of Legislation	140	138	142	142	155
Ministry of Patriots & Veterans Affairs	1,240	1,163	1,163	1,163	1,174
Forestry Service	1,529	1,398	1,406	1,433	1,463
National Tax Service	17,030	16,855	16,855	16,845	16,845
Customs Service	4,086	3,931	4,094	4,140	4,165
Ministry of Justice	15,687	15,674	15,849	15,977	16,146
Public Prosecutor's Office	7,819	7,976	7,976	8,002	8,230
Ministry of National Defense	1,107	945	945	945	945
Military Manpower Administration	1,609	1,479	1,482	1,491	1,735
Rural Development Administration	2,393	2,252	2,052	2,052	2,063
Intellectual Property Office	955	953	953	953	1,041
Ministry of Labor	2,847	2,763	2,698	2,698	2,740
National Railroad Administration	33,270	31,764	29,418	29,623	29,623
♣Emergency Planning Commission	88	83	83	83	83
National Statistical Office	1,720	1,692	1,692	1,692	1,691
Meteorological Administration	1,002	1,013	1,045	1,066	1,088
National Police Agency	96,286	96,103	96,102	96,102	96,084
◆Presidential Advisory Council for Science & Technology	1	1	1	1	1
♣Fair Trade Commission	410	402	402	416	416
Small & Medium Business Administration	917	560	560	560	567
Ministry of Maritime Affairs & Fisheries	3,972	3,849	3,895	3,895	3,950
National Maritime Police Agency	4,912	4,917	5,009	5,082	5,262
Ministry of Finance & Economy	723	671	603	660	660
Ministry of Environment	1,315	1,296	1,296	1,303	1,349
Ministry of Information & Communication	33,975	32,387	30,756	29,830	30,334
Ministry of Agriculture & Forestry	3,856	3,573	3,669	3,689	3,689
Ministry of Construction & Transportation	3,358	3,299	3,372	3,401	3,452

Ministry of Health & Welfare	3,286	2,990	2,997	2,994	3,027
Ministry of Education & Human Resources Development[2)]	294,974	296,469	298,585	298,585	310,585
♣Ombudsman of Korea	79	82	82	82	91
Ministry of Culture & Tourism	2,605	1,627	1,647	1,691	1,743
Ministry of Gender Equality[3)]	41	49	102	102	120
♣Office for Government Policy Coordination	158	158	158	158	158
♣Commission on Youth Protection	40	42	42	46	46
Ministry of Foreign Affairs & Trade	1,969	1,903	1,895	1,897	1,919
Ministry of Government Administration & Home Affairs	2,474	2,389	2,389	2,404	2,477
Ministry of Commerce, Industry & Energy	818	997	1,008	1,028	1,026
Food & Drug Administration	776	752	768	794	817
◆Civil Service Commission		65	65	83	83
◆National Economic Advisory Council		11	11	11	11
♣Financial Supervisory Commission		61	61	61	70
Ministry of Planning & Budget[4)]	268	248	248	248	291
◆Government Information Agency[5)]	47	277	277	277	277
Cultural Properties Administration		575	575	583	596
◆Presidential Truth Commission on Suspicious Deaths			23	23	23
Korean Broadcasting Commission			4	4	4
National Human Right Commission of Korea				4	180
Korea Independent Commission against Corruption					139
Others	927	899	894	894	929
Total Number of Personnel in the National Government	**553,561**	**549,502**	**548,120**	**548,003**	**562,373**

Source: Ministry of Government Administration and Home Affairs. Various years.

Notes: 1) Base dates for 1998, 1999, 2000, 2001, and 2002 are March 31, 1999, May 1, 2000, April 1, 2001, December 31, 2001, and December 31, 2002, respectively.

2) In 2001, the Ministry of Education was changed to the Ministry of Education and Human Resources Development.

3) In 2001, the Presidential Commission on Woman's Affairs, which was under direct authority of the President, was changed to the Ministry of Gender Equality.

4) In 1999, the Ministry of Planning and Budget was integrated with Planning and Budget Commission (PBC) and Office of National Budget. PBC was under direct authority of the President.

5) In 1999, the Office of Information was changed to the Government Information Agency.

6) Ministries with ◆ are under the direct authority of the President.

7) Ministries with ♣ are under direct authority of the Prime Minister.

Table 2. Personnel Changes in the Developmental State Ministries, South Korea, 1998-2002

Dev. State Ministries	1998	1999	2000	2001	2002
MOFE	723	671	603	660	660
MOCIE	818	997	1,008	1,028	1,026
MPB	268	248	248	248	291
Sub-total for Industrial Policy Ministries/ Share in Dev. State	**1,809 (81.5%)**	**1,916 (80.5%)**	**1,859 (80.1%)**	**1,936 (80.2%)**	**1,977 (80.3%)**
FTC	410	402	402	416	416
FSC	—	61	61	61	70
Sub-total for Regulatory Ministries/ Share in Dev. State	**410 (18.5%)**	**463 (19.5%)**	**463 (19.9%)**	**477 (19.8%)**	**486 (19.7%)**
Total Dev. State/ Share in Total Government Personnel	**2,219 (0.40%)**	**2,379 (0.43%)**	**2,322 (0.42%)**	**2,413 (0.44%)**	**2,463 (0.44%)**

Source: The Ministry of Government Administration and Home Affairs. Various years.

Notes: MOFE: Ministry of Finance and Economy
MOCIE: Ministry of Commerce, Industry and Energy
MPB: Ministry of Planning and Budget
FTC: Fair Trade Commission
FSC: Financial Supervisory Commission
Industrial Policy Ministries: MOFE, MOCIE, MPB
Regulatory Ministries: FTC, FSC
Dev. State: Developmental state
Gov't: Government

It is significant that the number of personnel in key economics ministries including the MOFE, MCI, FTC, FSC, and the Ministry of Planning and Budget actually increased during the period of 1998-2002 (see Table 2).[10] The government budget in these economic policy-making ministries increased continuously from 5.19% in 1994 to 15% in 2000 (Kwon, 2001).

Several interesting points emerge from Table 2, which illustrate the changes in personnel in the developmental state's economics ministries. The number of personnel in the developmental state ministries as a proportion of the total number of personnel in the executive branch stayed relatively stable at around 0.40% to 0.44%. Thus, the number of the developmental state's bureaucrats did not decrease substantially. Staff levels in the economics ministries involved with industrial policies decreased from 81.5% to 80.3% expressed as a proportion of levels in the developmental state ministries, while the regulatory ministries saw a rise in the number of their personnel from 410 to 486. The MOFE, which is the direct descendant of the once powerful EPB, shrunk while the Ministry of Commerce, Industry and Energy expanded due to a merger between ministries from 818 in 1998 to 1,026 in 2002, and the Fair Trade Commission and others have gained in both personnel and influence. We conclude from these findings that although overall the economics ministries have not decreased in size, it is important to note that there has been an important shift of power among the developmental state ministries from the industrial policy ministries to the regulatory ones. Of particular significance is the fact that the power is no longer concentrated in one super ministry—MOFE—, which once stood at the top of the executive branch and wielded enormous influence over the entire national economy.

The three rounds of public sector reforms did not produce a significantly leaner and smaller government. In fact, it actually saw the

10. The table records decrease in the number of personnel in MOFE£≠down from 723 in 199 to 660 in2002. However, this was mainly as a result of its split into MOFE, PBC, an th Office of National Budget during the first public sector reform.

expansion of the executive branch. By the end of the Kim Dae Jung administration, the executive branch had not only increased in terms of the number of its ministries, but also in terms of personnel and budget. Since South Korea had been able to pay off the IMF loan in August 2001, two years and ten months ahead of schedule, it may have decided to be more autonomous in its government restructuring after the second half of 2001. One key development was that the downsizing of the MOFE has led to a different power structure among the economics ministries. And one possibly unwanted consequence was that the economics ministries no longer had an effective mechanism of coordination and control. This may have led to competition among ministries for resources, and more importantly, to a lack of co-ordination in economic policy.

V. Concluding Remarks

The first stage of the Kim Dae Jung government's efforts to transform the developmental state was limited to minor changes in its organizational structure and personnel, and failed to introduce fundamental changes to the bureaucracy and its role in implementing reforms in other sectors. Corporate and financial restructuring was not fully driven by the market, but by strong government intervention, and public sector restructuring lagged far behind that of other sectors. As the direct successor of the once-most-powerful EPB, the MOFE had been slow to implement structural reforms. In pursuit of a "smaller, but more efficient" government, restructuring placed too many functions under the direct control of the President initially, and later under the Prime Minister, making the administration less capable of assuming responsibilities or taking initiatives in pursuing its own restructuring.

The South Korean developmental state's restructuring was limited to minor changes in its organizational structure and personnel, and did not include fundamental changes to the bureaucracy. While the Kim Dae Jung administration's new economic model had as its core a more open and transparent market and government, the developmental state was transformed only to the modest extent that it now placed greater emphasis on supervision and regulation as a means to enhance competitiveness and reduce cronyism and corruption. Moreover, since South Korea was able to pay off its debt to the IMF before the official deadline, it has been subject to a less close supervision on the part of the IMF and other international agencies with regard to its program for governmental restructuring.

The downsizing of the MOFE, which was at the helm of the South Korean development state and the executive branch as a whole, is quite significant. In contrast, MOCIE, which is in charge of industrial and energy policies, experienced a substantial growth during the Kim Dae Jung administration. The regulatory ministries were greatly enhanced in the aftermath of the Asian financial crisis, in line with the IMF's mandate. While the economics ministries in the developmental state as a whole did not see any significant changes in size during the Kim Dae Jung administration, the power relations among the ministries, as reflected in the relative size of their personnel, have changed. One important development has been that the regulatory ministries have gained greater prominence as compared to the past. However, what has remained unchanged is the fact that the industrial policy ministries still dominate the developmental state with 80.3% of its personnel.

Limited reform and the continuing power of South Korea's economic government offices have broader theoretical implications. This paper started with a critical perspective against studies that view globalization as a new international system whose forces would replace the state and weaken state sovereignty, and concluded that at least in South Korea, the state is still alive and kicking, and well able to withstand the forces of globalization. The economics ministries have been the engine of the developmental state in South Korea, and their persisting power and role suggest that the South Korean developmental state is still alive and well albeit different from the past. To conclude, from an examination of the progress of the South Korean government's program for the restructuring of the developmental state, it is difficult to say that the old South Korean model has been completely dismantled and has been replaced with an Anglo-American style non-interventionist, regulatory state.

Future research should focus on the question of how this reformed, but not restructured, developmental state has dealt with the growing influence of the private sector, and its demand for further government restructuring and liberalization, as well as with pressures from globalization. Further research needs to be done to obtain a more detailed, in-depth analysis of the various sub-divisions of the developmental state in order to arrive at a fuller understanding of the changes which have taken place within it. Qualitative changes in the developmental state including power relations, level and content of coordination, conflict and tension among ministries within the developmental state should also be examined to gain further insight into the inner workings of the developmental state in the face of globalization. On a different vein, a more important question that needs to be addressed is whether a reformed developmental state can still play an active and effective role in the nation's economic development even when the economy has successfully developed beyond its infancy.

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