

# Corporatism and Korean Capitalism

*Edited by*

Dennis L. McNamara



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# Corporatism and Korean Capitalism

The turbulent polity and economy of South Korea continue to confound scholars and policymakers alike. Recent economic reversals have brought heavy criticism to long-admired ties between Korean state and business. More than a study of business and state on the peninsula, this volume refines corporatist theory with a comparative study of an Asian political economy.

*Corporatism and Korean Capitalism* brings the powerful light of corporatist theory to the Korean experience of state-business ties. At the same time, the often chaotic Korean trajectory of dramatic change in polity and economy revises corporatist theory with the Asian experience of market and democratic rule. This volume will challenge researchers and students of Asian studies, economics and politics to extend and refine their understanding of both corporatism and Korea. Moreover, this book offers a baseline of understanding critical for policymakers confounded by the curious mix of collusion and competition in the Korean political economy.

**Dennis I. McNamara** is Park Professor of Korean Studies and Chair of the Sociology Department at Georgetown University. His books include *Trade and Transformation in Korea, 1876–1945*; *Textiles and Industrial Transition in Japan* and *Colonial Origins of Korean Enterprise, 1910–1945*.

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# 1 Introduction

*Dennis L.McNamara*

The simultaneous challenge of political and economic reform has prompted an intense debate over the future of South Korea's political economy. Few crises in the turbulent recent history of Korea have generated such interest, energy and ideas among scholars, government leaders, labor officials and industry executives. The discussion promises a program for the future of state and society that will affect not only the lives of forty million Koreans, but also her trade partners across the world. President Y.S.Kim publicly embraced a path of political liberalization or 'democratization' in his presidential campaign in 1991, prompted by the labor unrest of 1987 and persisting discontent with authoritarian rule. The economic prosperity which brought South Korea closer to the ranks of leading industrialized nations also prompted new demands for market liberalization from her trading partners. Adding to the turmoil was the financial crisis of 1997 and the threat of economic default among Korea's highly leveraged firms as the Korean currency suddenly lost half of its value in comparison to the US dollar, doubling the payments due on dollar-denominated loans. A backup rescue package of credits totalling \$58 million from the International Monetary Fund (IMF) bolstered government reserves, but not without conditions. Korean state officials eventually accepted demands for 'transparency' in the rapid restructuring of the economy and won IMF support for adjustment efforts in finance and industrial relations.

Coupled with the economic shock of the new 'IMF Era [IMF *sidae*]' was the inauguration of an opposition party leader, Kim Daejung, as the new president of the Republic in February of 1998. How will the Republic weather the economic crisis of confidence in finance and industry, and political crisis of an opposition leader in the Blue House despite the comfortable majority of the former ruling party in the National Assembly? Is there a formula or path relevant to both authoritarian past and democratic future that might provide direction in the transition? This volume presses the

debate on Korean political economy forward by staking out the corporatist thesis. Looking back to authoritarian precedent and forward to democratic prospect, corporatist patterns of political economy and policies of democratic participation appear prominent among a variety of efforts to mediate state and society in South Korea today. One fact evident from the outset is that no one pattern of interest exchange can adequately depict the bewildering variety of contention and cooperation marking the present and recent past of Korean capitalism. As Im Hyug Baeg aptly observes, 'Korean interest politics is amorphous, centrifugal, hyperbolic, and unruly.' None the less, scholarship on the corporatist thesis by Bruce Cumings, Park Moon-kyu, Ziegler and Wirada has long brought new attention to possible continuities between the European and Asian experience.

This volume brings together two theoretical chapters on Asian and Korean corporatism, case studies of agriculture, industry and industrial relations, an introductory chapter on comparative corporatism, and a conclusion on the future of corporatist interest exchange on the peninsula. Contributors combine goals of a better understanding of the democratic transition in South Korea and extension of the corporatist thesis to the Korean experience of polity and market. We hope to nudge the study of Korean political and economic transition from description to analysis, and encourage a more careful analysis of theoretical alternatives for interest contention in Korean capitalism. With the corporatist alternative as either frame or foil, contributors have looked to past and present patterns in Korean state and society, and moved to a conclusion with profiles of Korea's future political economy. Hoping to avoid the extremes of models without data or detail without theoretical focus, our purpose was not only to address a theoretical and empirical divide evident in much of the Western literature on Korean political economy, but also to bring imagination and comparative insight to the discussion with the goal of generating new theories of Korean society. An interplay of state and society continues as a basic motif across the volume. A thesis of 'democratic consolidation' or the transformation from contingent solutions into regularized patterns of competition and cooperation internalized in civil society helped clarify the process of political liberalization on the peninsula.<sup>1</sup> Theories of democratic transition drawn from the Latin American experience suggested more differences than similarities given the deep historical legacy of contention between crown and aristocracy, and then of colonial state in South Korea. Dismantling authoritarian structures and liberalizing policy was one thing, but transferring such tasks to mediating groups, or to institutions within civil society was yet a separate issue. Democratization usually includes devolution of some state responsibilities to institutions of civil society. Reform of state authoritarianism quickly posed the problem of comparable institutions in

civil society, and turned attention to an emerging theme of institutionbuilding whether in state bureaucracy or among the organized interests of civil society. Apart from the process of democratic consolidation, contributors addressed a further question of origins of democracy, focusing on the efforts of organized labor, capital, and farming interests, and particularly on dissent and dissident competing interest organizations.

Looking beyond pressures for market liberalization, we turn to procedures of market openings in textiles and agriculture to assess constraints on reform in both state and society. Alternatives for local restructuring of tripartite relations among state, capital and labor for instance, were strongly affected by broader questions of international market competitiveness confronting all three partners. Organized labor faced a further constraint of resistance within Korean society to any demands which might threaten continued economic growth. Political leaders faced a different set of constraints with pressures to open agricultural markets to foreign imports, despite the opposition of increasingly restive agricultural interests. Attention to constraints led to the further question of cause with some arguing that external pressures beyond the peninsula, rather than the organic development of internal dynamics of supply and demand, had turned the nation from mercantilist to more liberal market policies. What appeared most distinctive to the Korean experience was the timing and progress of market liberalization, as well as the coupling of liberalization and rapid democratization.

## **Corporatism**

In an opening essay on 'Comparative Corporatism' the utility of corporatism for explaining Korean interest exchange by tracking the corporatist thesis through recent theories of state, Korean state, and Korean society is assessed. Insights from the corporatist thesis have already helped refine theories of both state and interest group on the peninsula, and promise further to identify significant parallels and discrepancies between the comparative concept and the specific Korean case. T.J.Pempel offers a compelling argument for the appeal of the corporatist model in Asia where a 'collectivist pattern of domestic associability' might strengthen economic competitiveness. Im Hyug Baeg brings the broader concept of macro-corporatism into a clearer research focus with attention to sectoral corporatism in South Korea and the concrete patterns of organizing interests, quoting de Tocqueville's depiction of democracy as the 'art of association.' One continuity among the first three chapters of this volume is the concern to specify an Asian and, indeed, Korean variant of corporatism which strikes

a balance between theoretical continuity with the comparative concept of corporatist interest exchange, and the historical realities of the Korean case. Both Pempel and Im carefully distinguish between the Asian and European models of corporatism, with Pempel contrasting the tradition of strong and autonomous social organizations, the institutionalized policy-making role of labor, and the welfare net in Europe from corporatist patterns in Asia.

Careful attention to the diachronic development of the Korean variant of 'state' or authoritarian corporatism, as opposed to societal or neocorporatism, provides further common ground. Evidence of authoritarian corporatist precedents are cited among capital, farmers and labor, beginning with my own review of state relations with capital from the late nineteenth century in the ideology of 'benign capitalism.' The concept of *kwanmin* or 'state' and 'society' provides a common link across an ideology of benefits despite discrepant definitions of state and the changing leadership of the business world in late kingdom (1876–1910), colony (1910–1945), and early republics (1948–1972). Larry Burmeister traces the organization and activities of the *Nonghyop* or 'National Agricultural Cooperative Federation' from the 1960s, and provides a profile of reorganization and new forms of participation, yet finds continuity ultimately in close ties between state and federation. My chapter on a changing state role in the textile industry provides a case study of the nexus of democratization, market liberalization, and industrial restructuring for an industry in crisis if not decline. Tracking the shift from state as corporatist patron to corporatist partner, I offer one example of a transition towards sectoral corporatism. But if state and society remain in harness in specific sectors, the balance of power has clearly shifted toward the organized interests of the private sector. Contrasting motifs of state direction and of social dissent offer a further continuity across the various case studies. A changing state role, whether colonial versus post-colonial, or authoritarian versus more liberal, deeply affects opportunities for interest organization in civil society. Dissent among newly emerging, competing peak organizations or federations, whether in field or factory, now punctuates the political landscape eroding the legitimacy of state-designated interest associations.

Turning from precedent to prospect, T.J. Pempel cites the relevance of the Japanese model of corporatism without labor, while Im distinguishes between Japanese patterns of micro-corporatism in the enterprise union, and Korean patterns of the company union without leverage beyond the firm. Burmeister looks to the entrenched organizational strength of the agricultural cooperatives to sort out prospects for the survival of corporatist patterns. He concludes that when a state-designated, semi-official interest organization or "parastatal" engulfs a sector, fulfilling multiple functions and employing an organizational network that is territorially extensive, it is difficult to dislodge.' My own chapter on

patrons and partners in textiles specifies the corporatist organization of interests, but questions the commitment of mogul firms to a declining industry. Centripetal forces of adjustment such as offshore production and diversification out of the industry may well discourage major textile firms from investing in a domestic production line for export beyond their own operations. Im concludes that sectoral corporatism is not only feasible but desirable for insuring the interests of both state and society in the long term. In a concluding chapter on Korean capitalism, I look to the recent thesis of 'disorganized capitalism' tracking the decline of corporatist patterns in the West, and compare fading corporatism in the West with corporatist paths in South Korea. Sectoral corporatism appears a necessary but not sufficient factor to explain mediation of interests, given that clientelistic patterns, as well as more transparent, contentious mediations best identified as pluralism appear prominent as well.<sup>2</sup>

Specific questions of transition captured the attention of Im, Burmeister, and myself. Im cited advantages in South Korea of democratic consolidation such as economic growth and prosperity, ethnic homogeneity, and a tradition of cohesive state direction. Burmeister considered a transition within corporatist patterns of organization at the agricultural cooperatives, citing theories of resource dependency to assess institutional resources for continuity and change. A consensus emerges from these chapters around the challenge of building cohesive institutions of interest representation within civil society. I typify the transition in a state role with the terms 'patron' and 'partner' to tap both the developmental or bureaucratic side of state efforts, as well as aspects of status or authority in relations with the business community. As I found in interviews with both government officials and industry leaders, the past is clearer than a present where both state and industry find themselves at a difficult crossroads of transformation in local polity and economy, as well as in Korea's position in international markets and international trade regimes. A concluding essay places the corporatist thesis within an historical context on the peninsula, and identifies features of Korea's development path to draw out insights from the literature on democratic consolidation relevant to the corporatist thesis. I then turn to Korea's future and assess the prospect for more productive and enduring patterns of interest mediation.

Each chapter in the volume offers its own set of questions and insights. The chapter on 'comparative corporatism' presses the comparative project beyond the state corporatist thesis to assess the recent emergence of stronger organized interests among both labor and capital, and specifies methods for tracking a transition to sectoral, societal corporatism. My historical study of benign capitalism traces the interaction of idea and institution in the development of both an ideology of benefits, and a structure of state/capital ties. Patron and partner represent guiding concepts in my study of the state

role in the textile transition. The chapters by Im and Burmeister contrast the authoritarian, formative periods of interest organization among farmers and industrial labor, with recent changes in a more liberalized polity. T.J. Pempel briefly reviews historical dynamics affecting both European and Japanese corporatist patterns. One motif in the case studies is the contrast of authoritarian stability with recent instability in a polity publicly committed to democratization but retaining earlier controls through peak organizations in agriculture and among industrial labor.

## **Conclusion**

The linking of corporatism and capitalism belies both the ambitions and frustrations of trying to bring the analytic power of a comparative concept to bear on the anomalous Korean case of capitalism whose mysteries we are only now beginning to unravel. This initial effort to identify an Asian model of corporatism, a Korean model of authoritarian corporatism, and the prospect for a sectoral corporatism in South Korea's future may well contribute to both concept and case. Students of corporatism will find the Korean path stretches the categories of organized interests, and challenges assumptions about tripartite interest group organization. Corporatist theorists will likewise find the democratic transition in Korea of significance for social change within corporatist frameworks, and of pertinence to the growing literature on state direction in the development process. The volume also clarifies ideas of corporatist organization and change within labor and agriculture, and offers new theses for assessing Korean transitions in political participation and markets.

Contributors drew extensively from a growing literature on the Korean state and its relation to capital and industrial labor. What quickly becomes apparent in these chapters is that scholarship on state and economy has far outpaced the study of society, impeding efforts to imagine, much less plan or design devolution of state responsibilities to the organized interests of civil society. As one frustrated Korean government official confided to me a few years ago, 'if the state moves out, what moves in?' One might dismiss complaints about the absence of cohesive, independent organizations commanding the allegiance of large sectors of society as simply an excuse for maintaining state direction, but there is little doubt that the vacuum impedes transfer of significant state responsibility at least in the short term. The growing complexity of information in international markets has forced devolution of much economic planning to the Korean conglomerates or '*chaebol*.' Whether the complexity of markets will likewise lead to better organization, greater responsibility, and a stronger political role for organized religious,

environmental, educational, cultural or consumer groups remains to be seen. Our theme of institution-formation in civil society appeared all the more urgent as discussions continued, as well as reconceptualization and redesign of existing peak organizations among labor and agricultural interests.

Apart from new case material and hypotheses about Korean society, scholars also posed fundamental questions about democratization and market liberalization. Consolidation suggests a passing of responsibilities to civil society, but few cases could be documented in the chaos of labor politics or the rapidly changing agricultural markets. Contested interests rather than organized interests may well presage the reconsolidation of stronger, more comprehensive and autonomous interest organizations, but as yet offer little evidence of significant devolution necessary for democratic consolidation. A further question of origins likewise captured our attention. And if foreign pressure has been significant in pressing political and market liberalization, how will this affect the formation and orientation of newly organized interests? Restructuring at home and transfer of production offshore have forced this issue to the forefront in labor negotiations, and imports of agricultural products have had a similar effect among the farmers. Given the painful history of foreign intervention on the peninsula culminating in colonization under Japan, origins in the transition may well affect both the progress and the outcome of political and economic reform.

Beyond generating new ideas and further questions about the corporatist thesis, the volume also reflects our initial goals of better understanding both Korean and Asian society. Studies of a century of corporate ideas, of agriculture, and labor contribute to a growing literature on models of Korean political economy, and to the corporatist thesis in an Asian context.<sup>3</sup> Korean state, capital, labor, and agrarian interests, as well as local ideas of market and state must take their place in studies of Asian development to both ground and expand our understanding of capitalism beyond the Western context. Our most immediate contribution to the study of Korean society lies more in precedent than in prospect as we delineate the patterns of state and society that have defined Korean capitalism to this point. But the past offers a firm ground for imagining the future, and the recent history of institutionalized interest groups provides one model for assessing the prospect of organized interests in the society of the twenty-first century.

## Notes

- 1 Philippe C. Schmitter, 'Interest Systems and the Consolidation of Democracies,' in Gary Marks and Larry Diamond, eds, *Reexamining Democracy* (Newbury Park: Sage Publications, 1992), p. 158.



- 2 'Association and Adjustment—Restructuring Industry and Society in South Korea.' A paper presented for the Georgetown University Korea Lecture Series, April 29, 1996.
- 3 For a review of Korean precedents of 'corporate' ideas prominent in North Korean ideology, see Bruce Cumings, 'The Corporate State in North Korea,' in Hagen Koo, ed., *State and Society in Contemporary Korea* (Ithaca: Cornell University Press, 1993), pp. 197–230.

## 2 Comparative corporatism

*Dennis L. McNamara*

Can corporatism help explain the enigma of growth and decline in Korean capitalism? We must first address the question of the comparative merit of the corporatist concept for explaining interest mediation in South Korea. On the one hand, can the corporatist thesis shed light on significant Korean patterns of interest consolidation and exchange among state, capital, and agrarian labor? Can corporatism provide a compass in the Korean forest of clear state direction despite periodic ungovernability, remarkable progress towards status as a modern, capitalist society, and yet today a very serious financial crisis? On the other hand, what can the growing literature on Korean capitalist development tell us of both the utility and conceptual refinement of the corporatist thesis? An answer lies in the interplay of case and concept. Concepts and case studies make possible comparisons of social exchange across time and national boundaries. Concepts alert us to significant parallels and contrasts among the nations or subjects of interest, just as case studies test, refine and extend the explanatory power of the concepts. But apart from clarity of either concept or case, the prior question remains one of utility.

Various scholars have cited corporatism alternatively as a form of political economy, as a form of governance or as a mode of interest representation.<sup>1</sup> The origins of the term *corporatism* in the Latin word *corpus* denote an organic premise of society as an interdependence of parts and functions, in clear contrast to the conflict perspective of class theorists. Function supplements or replaces participation based solely on geography. The linking of state and capital through chartered, designated trade associations, and also of labor through semi-official national centers and trade federations, provides an organizational component, while a shared consensus on national growth priorities, or of a 'social compact' in times of rapid industrial change provides the ideological component of the corporatist paradigm. Alan Cawson recently cited three key features of corporatism as distinct from pluralistic

processes of interest group politics: (1) a monopoly role played by corporatist groups; (2) a linking of roles of policy formation with policy enforcement; and (3) a salient state role in licensing and codetermining policy.<sup>2</sup> Blending institution and ideology, Peter Katzenstein identified three features of 'democratic corporatism': an ideology of social partnership expressed at the national level; 'a relatively centralized and concentrated system of interest groups; and voluntary, informal coordination of conflicting objectives through continuous political bargaining among interest groups, state bureaucracies, and political parties.'<sup>3</sup> As apart from corporatism as system or pattern of policymaking, the focus on bargaining coincides with Philippe Schmitter's emphasis on interest intermediation and appears most pertinent to the Korean case.

Philippe Schmitter contrasted societal or 'democratic' corporatism with state-imposed or 'authoritarian' corporatism, the latter more relevant to the Korean case. Corporatism quickly pulls our attention back to basic questions of state and civil society on the peninsula, of power and participation in economic policy-making, and of transitions. Initial capitalist growth under colonial rule from 1910, compressed but rapid growth in both polity and economy in the republic from 1948, and most recently the simultaneous transitions of democratization, market liberalization, and industrial restructuring complicate the task of identifying patterns whether of corporatism, freewheeling market contract, or class. If the contrast between state and societal corporatism might shed light on Korean transitions, so also would the recent shift in research from macro to 'meso' or sectoral corporatism in specific areas of the economy. Coupled with the emphasis of Collier and Collier on inducements and constraints in ties between state and both capital and labor, a sectoral approach provides a more substantive and focused analytic method for specifying both concept and case.<sup>4</sup>

Study of the societies of Latin America highlights both idea and institution in the development of corporatist strategies. Alfred Stepan wrote of 'organic statism' as a normative model of ties between state and society rather than simply a methodological approach.<sup>5</sup> Ideas of society as an organic whole help legitimate the role of the state in overseeing and promoting the common good, with clear parallels in the Confucian ideologies and earlier patterns of state rule in Northeast Asia. Companion studies of clientelism or patrimonialism deepen and extend the study of corporatism, filling out an historical context which borders and gives focus to the corporatist model. Robert Kaufman argued that informal, patrimonialistic clientelist patterns give flexibility to more formal, meritocratic corporatist procedures.<sup>6</sup> Perhaps the most intriguing argument in this literature is the thesis of bureaucratic-authoritarianism which O'Donnell (1979) attributed to the economic process of industrial deepening in Latin America, but which scholars trace to

domestic, political and geopolitical priorities in South Korea. Peter Katzenstein's study of small state corporatism in northern Europe offers multiple parallels with the Korean case, particularly the vulnerability of a trading nation to international markets, and the internal demand for solidarity in the face of rapid structural adjustment. Katzenstein, Schmitter, Lehmbruch and others have outlined the policy and practices of 'social corporatism' which may in time be relevant for the liberalizing political economy of South Korea, but without much attention to the more pressing issue on the peninsula of a transition from state to societal corporatism. A far smaller literature on corporatism in Northeast Asia provides contrasts with the European experience, and raises questions of a corporatism without a prominent role for labor or a labor-oriented political party. My own study of 'porous corporatism' in Japan's textile adjustment suggests that whatever picture we draw of an Asian corporatism, it will necessarily be a hybrid model of states and societies with long histories prior to the intrusion of Western capitalism in the late nineteenth century.<sup>7</sup>

Whatever promise sectoral corporatism offers in establishing research directions, examination of corporatist idea and institution remains critical for defining modes of interest representation. Harmon Zeigler has cited a priority on economic goals 'encompassing' private and public sectors in Confucian, Asian societies,<sup>8</sup> and while the interpenetration of state and society in Korea suggests fertile ground for testing forms of 'intermediation,' particularly between state and capital, it is organization as well as ideology that draws our attention to a corporatist dynamic in the Korean case. Dramatic changes in Korea's industrial model from the late 1960s fostered bureaucratic-authoritarian forms of organization, just as recent challenges of industrial adjustment prompt cooperation in policy formation and implementation, often resulting in corporatist patterns of structured change.<sup>9</sup>

## **State theory**

The prominent state role in Korea's remarkable trajectory from poverty to prosperity has captured the attention of comparativists. Studies range from more general models of state and society, to theories of the Korean developmental state, and to policy studies of the state role in restructuring Korean industry. Rapid economic growth in the Third Republic (1963–1971) under President Park Chunghee spurred media interest, but it was Park's authoritarian turn in the Fourth Republic (1972–1979) under the 'Yusin Regime' and intriguing parallels with authoritarian polities in Latin America that gained the notice of comparative state theorists.<sup>10</sup> Guillermo O'Donnell argued that the economic demands of international capital for

vertical integration of a nation's productive structure or the 'deepening' of industrialization in Brazil in the 1960s motivated closer state control over the popular sector. The result was a bureaucratic-authoritarian (BA) regime supported by an enforced national consensus and defined by better integrated industrialization. Corporatism served, he argued, as a linkage between bureaucratic-authoritarian state and the organized interests of civil society.<sup>11</sup> The authoritarian thesis parallels theories of state corporatism, but offers specific hypotheses of industrial deepening to explain state suppression of opposing interest groups. Redirecting such theses to the Korean case, Im Hyug-baeg cited industrial deepening from the mid-1970s in South Korea as consequence rather than cause of the bureaucratic-authoritarianism, and concluded that conflicts among state, capital and labor, rather than economic dynamics, forced the transition.<sup>12</sup> Bruce Cumings argued similarly that a dialectical rather than lineal relationship between economics and politics set the Korean experience apart from O'Donnell's model. Cumings had earlier extended the BA thesis to Northeast Asia with his hypothesis of the 'bureaucratic authoritarian industrializing regime (BAIR)' combining autonomy, coordination, pragmatic bureaucratic planning, concentration in the private sector, exclusion of labor and exploitation of women.<sup>13</sup> Kil Jeong-woo looked to the comprehensive, penetrating, technocratic and repressive BA state in South Korea and Brazil, and cited a further contrast.<sup>14</sup> Unlike the BA state in Latin America where corporatism resulted from a breakdown of a self-regulating pluralist system, corporatism in South Korea represented rather the effort of the military to assume and consolidate control quite apart from political traditions or economic demands.

Besides providing a comparative foil, the concept of the bureaucratic-authoritarian state advanced understanding of Korea's political economy by situating the structure and style of the Park regime in a comparative context. It was 'bureaucratic' in contrast to autocratic and personalistic rule, but also in contrast to more 'political' rule shared among judicial, legislative and executive branches. As apart from the focus on either political party development or on political culture, the BA concept opened a new path of scholarship distinct from both liberal-pluralist models and clientelist modes. Second, 'authoritarian' rule was distinct from populism on the one hand, and totalitarianism on the other. Moreover, the blending of political rule with the economic interventions of the government bureaucracy provided a comprehensive concept to reflect the interpenetration of polity and economy salient in the Korean case. But this earlier model of a strong state, an overriding priority on economic growth led by concentrated business interests and a weak society has outgrown its usefulness on the Korean peninsula. Market success today has advanced industrial deepening beyond the controls of an earlier BAIR because of both Korean vulnerability

to world markets and the growing restiveness of civil society. Ahn estimated that export earnings account for as much as 40 per cent of Korea's GNP, and argued that 'political control of the economy is less tenable than in the case where there are larger domestic markets or less dependence on world markets.'<sup>15</sup>

South Korea continues to gain scrutiny among theorists of a state role in development in the scholarship of the 1990s. Peter Evans, Joel Migdal, and recently Karl Fields have looked closely to the interplay between state and capital to flesh out models of the state embedded in society rather than simply in market. Such scholars owe much to the work of Karl Polanyi and his contrast between traditional 'society' constraining markets and the more autonomous 'markets' of the capitalist transformation, and his attention to the persistent efforts of modern state and society to protect themselves from unrestrained markets.<sup>16</sup> But if Polanyi pioneered such arguments with his contrast between dominance of either society or market, the Korean path has drawn recent theorists more closely to the seminal work of Max Weber on state bureaucracy. Yet hoping to edge scholars away from a state focus, Joel Migdal argued for a more balanced approach to state-society relations with his theory of multiple areas of domination and opposition across society. 'These struggles and accommodations in the junctures between components of the state and other social forces have produced a range of outcomes.'<sup>17</sup> It is this range of outcomes, as well as the forces within state and society, that draw his attention rather than the composition and actions of state bureaucracies alone. The recovery of social forces in the study of state-society relations promises to bring more attention to problems of social mobilization and perhaps class consolidation in the study of Korean society, past and present. But the work of Migdal has already affected comparativists such as Peter Evans as evident in his new priority on 'connection' to balance state capacity.

'Embedded autonomy' recalls the cohesion and capacity of the Weberian bureaucracy, but also underlines the need for effective social ties as the state tries to balance insulation and engagement with capital to promote development. Citing the Korean state role of midwife in the development of the textile, auto and information industries, Evans identified Korea as 'developmental' rather than a rent-seeking or 'predatory' state. Yet in drawing contrasts among state-society relations in Japan, Taiwan and South Korea, Evans concluded, 'Korea pushed the limit to which embeddedness could be concentrated in a few ties without degenerating into particularistic predation.'<sup>18</sup> In a recent essay, Evans raises the further question of why the rising strength of capital in the *chaebols* did not lead to capitalist predation of the state.<sup>19</sup> We are left with the question of why ties between state and the oligopoly of leading *chaebols* did not degenerate into clientelism. The work

of Evans and others on the competence and capacity of the Korean bureaucracy suggests one reason, but little research can be cited to explain the role of society in this remarkable tightrope between predation and developmental state strategies. A corporatist focus on mediating organizations could provide insight into societal forces which provide credible, transparent procedures constraining clientelistic ties between leading industrial groups and the state bureaucracy. Corporatism may also serve as a foil with which to view embedded, informal ties more akin to clientelism, and how these might both promote connection, yet not draw the state–capital relationship into particularistic predation. One reviewer pressed further, asking why states undertake different roles of custodian or midwife.<sup>20</sup> Corporatism may offer a framework which locates organizational patterns and ideas in such a way that a more contextualized causal analysis is possible.

Karl Fields assumed a similarly comparative institutional perspective in sorting out state-society ties, but following the pioneering work of Michael Gerlach on Japan, looked more closely to the organized interests of capital in Korea and Taiwan.<sup>21</sup> Fields concluded that ‘informal relationships of “trust” stemming from ongoing social relations structure market transactions and contributed to the success of the East Asian variant of capitalism.’<sup>22</sup> If Evans highlights bureaucratic cohesion at state bureaucracy and the transition from midwife roles to husbanding roles, Fields found the state still controlling finance for the highly leveraged firms, and highlighted often illicit survival tactics of firms, as well as persistence of informal bonds such as ties of kinship, school or region. His profile of both state and social forces offers fertile ground for clientelistic ties, but leaves us with still more questions about the anomaly of Korean development despite the comparatively weak institutionalization of formal, transparent ties between state and capital. If the Korean case has refined and extended state theory, and spurred new interest in comparative case studies of state-society interactions in finance and trade, what contribution might the corporatist concept provide in focusing or perhaps redirecting such efforts? The transition from state to societal corporatism can serve as either frame or foil for sorting through changes in role of both state and capital. Evans argued that state encouragement of industry in South Korea fostered unintended results such as consolidation of massive resources and considerable political leverage at leading *chaebol*, and the rise of organized industrial labor. Recent work on broader societal forces in the study of Korea’s civil society has brought attention to organized interests beyond capital and labor, and promises to enrich our profile of domination and contention. The more specific questions of changing roles among state and capital may well be framed with the corporatist thesis, particularly given the survival and surprisingly robust role of major trade associations including the Federation

of Korean Industries. The focus on organization and ideas might lend insight into critical issues of institution-building beyond simply individual *chaebol* or state office, and draw us closer to the actual, embedded procedures of interest exchange defining Korean capitalism.

## Korean state

Gunnar Myrdal initially posed the problem of state discipline in the development process and provided a bridge from state theory to theories of the Asian state. He characterized certain of the recently decolonized states of Southeast Asia as *soft* 'both in that policies decided on are often not enforced, if they are enacted at all, and in that authorities, even when framing policies, are reluctant to place obligations on people.' Social compulsion was Myrdal's resolution to the conflict between the general interest represented by the state, and divisive particularistic interests. In an initial study of the Korean state, Jones and Sakong contrasted the soft state of the Rhee administration in South Korea (1948–1960) with the interventionist, export-oriented 'hard state' of the Park administration from 1963.<sup>23</sup> Here the more authoritarian government developed clear economic directions and distinguished itself with effective policy implementation, permitting 'positive sum' entrepreneurial activities of mutual benefit to the private corporation and to the wider society. Both Jones and Sakong, as well as Mason and colleagues, argued that in contrast to Myrdal's criticism of discretionary controls characteristic of soft states, the Park administration indeed relied on discretionary controls, but through a growth-oriented and well-informed bureaucracy.<sup>24</sup> Alice Amsden looked more closely to policy and practice in industrial development to prove the intriguing thesis of discipline and sensitivity to market signals in distinguishing the Korean development path by 'the discipline its state exercises over private firms.'<sup>25</sup> But if the Park administration was 'smart' insofar as it got the 'prices right' in augmenting market dynamics, we must await more detailed studies of Korean bureaucracy to specify the process of constructive discretionary benefits that do not result in simply rent-seeking.

Looking to Japan and the United States, Chalmers Johnson distinguished the former as plan-rational and the latter market-rational, the former developmental and the latter regulatory. He later extended the thesis to the Korean case comparing the interplay of authoritarianism and capitalism in the development paths of Japan, South Korea, and Taiwan. 'Administrative guidance' represented a continuity across the three nations, despite differences between the 'soft authoritarianism' of Japan and the 'hard authoritarianism' in South Korea.<sup>26</sup> His broader thesis of the 'developmental



state' has drawn far more attention than his warnings about the possible abuses of administrative guidance in the tight relationship between state and capital. Closer attention to the organization of ties between bureaucracy and firm, state and capital, might shed light on both the abuses and successes of the guidance. Extending Johnson's work to explain transitions in the South Korean state, Eun Mee Kim deemed Johnson's thesis the 'comprehensive developmental state.' In contrast, she described the Korean state of the early 1990s as a 'limited developmental state' which accommodated policy goals other than simply economic development and planning. Priorities of foreign policy and welfare now compete with economic development, just as regulatory functions have taken priority over developmental functions in some sectors of the economy. Turning to causes, she argued that successful state encouragement of big business nurtured institutions in the private sector which eventually replaced the state economic role in certain areas. The transition to a more limited state role was thus symptomatic of a declining developmental state, reflecting its 'fundamental contradictions and inherent limits,' rather than simply arbitrary political choices.<sup>27</sup> The emphasis on state as *subject* rather than simply *agent* of social change draws us back to changing institutions and ideologies. Together with other approaches to interest exchange, the corporatist thesis may refocus attention more clearly on state formation, and on the changing patterns of state/ capital relations. Research on sectoral corporatism in particular may help distinguish those areas where the state retains a developmental role from those distinguished by state regulation.

### **State and adjustment**

In addition to state theory and theories of a Korean state, the pressing contemporary challenge of structural adjustment has spawned new theses of state industrial policy and practice. A World Bank study of South Korea published in 1987 concluded in favor of 'selective intervention,' i.e. 'policies that change the allocation of resources among specific industrial sectors,' to spur firms and industries to restructure.<sup>28</sup> A few studies such as Robert Wade's recent work have explicitly cited 'state corporatism' to explain earlier state intervention in South Korea.<sup>29</sup> Other studies have suggested where the corporatist thesis might prove useful. Offering a policy recommendation for institutionalizing bargaining and insuring cooperation in industrial relations, Stephan Haggard and Chung-in Moon pointed to the relevance of the corporatist thesis for Korea's democratic transition. In an effort to redirect research priorities, they argued for an institutionalist approach to sort out state interventions, and to clarify state/capital ties.<sup>30</sup> Assessing the

interplay between authoritarianism and capitalist development, they first noted that while authoritarian controls may initially impede development of cohesive corporatist institutions, or of reliable interest representation, such controls in time may serve as a basis for transformation into a more participatory, societal corporatism. To test this hypothesis they then surveyed the short-term adjustment of the 1980s for evidence of persisting insulation or growing vulnerability to societal demands. They found the state regime under President Chun Doo-hwan successfully imposed reforms on farmers, labor and the government bureaucracy, but was less successful in imposing such changes on the organized interests of capital. The authors concluded with a plea to scholars for a clearer profile of societal interests to balance and complement the institutionalist profile of state interest and action. This reorientation of adjustment studies to institutions and embedded interests, looking to the interaction of state and society rather than simply state policy, will tell us much of short-term transitions and their significance for the wider historical trajectories of capitalist development.

Leipziger and Petri look to industrial policy and power rather than institutions in a recent study of adjustment strategies. The unraveling of an earlier compact between a strong state and the weak organized interests of capital threatens to undermine cooperation at the critical juncture of adjustment forced by changes within and beyond the peninsula. 'Who shall guide the industrial sector—the financial sector, industry itself, or government?'<sup>31</sup> Citing the tripartite cooperation that binds state, labor, and capital in Japan and Germany, and close working relationships between finance and industry sectors, they suggested a new Korean model along similar lines. They concluded with familiar corporatist criteria for effective industrial policy such as a consensus on national goals, effective policy instruments, and a forceful bureaucracy. Haggard and Moon point to persisting leverage in the 1980s, but growing constraints on state leverage over capital. Attributing the latter to the structural contradictions evident in the decline of a developmental state, Eun Mee Kim cited a limited developmental state. Leipziger and Petri move the discussion forward with a new compact of cooperation akin to the corporatist compromise of Germany and at least bipartite corporatism of Japan.

Critics of corporatist theory have cautioned us about the comparative validity of the term *state*. Noel O'Sullivan called for a more contextualized, embedded concept of state in the corporatist thesis, particularly for those societies without a feudal tradition or a system of law similar to the experience of Western European states.<sup>32</sup> The latter caution is particularly pertinent in the Korean case where an alien, colonial state replaced the patrimonial rule of the late Chosun Dynasty, and where a mix of Anglo-Saxon, Japanese-German, and indigenous legal traditions have come to

define the contemporary legal structure. Leo Panitch argued that despite the prominent role accorded the state in corporatist theory, the theory itself lacks any rigorous definition of the contemporary, advanced industrial state.<sup>33</sup> In the Korean case, the state garnered far more attention than society through the 1980s, although a more substantive theoretical understanding of the Korean state role in a 'developing' society must await the building of a broader empirical base of studies on the actual workings of bureaucracy, and their ties with capital and labor. Yet here I would suggest the theoretical development should emerge from the interaction of concept and case, rather than from some separate theoretical project on the Korean state.

O'Donnell looked not to the theory but to the practice of states and emphasized that corporatist policy was 'segmentary' in its variety of inclusion and exclusion for different groups, but also across time. Attention to the segmentary rather than synthetic or unitary nature of corporatist policy appears particularly relevant to the Korean case with such dramatic differences in power between the organized interests of capital in the *chaebol*, and the interests of farmers, industrial labor, and other groups. The historical dimension likewise deserves close attention, given the remarkable shifts in sovereignty on the peninsula through 1948, and then the dislocation and discontinuities of political rule following the war and decades of rapid development.

### **Korean society**

Erosion of the comprehensive, penetrating role of the state coupled with the emergence and activation of civil society have renewed academic interest in ties between state and society, and the structure and ideas of organized interests apart from the state.<sup>34</sup> Scholars of comparative political economy have called for greater attention to the institutions joining state and society, particularly to the 'embedded' or 'institutionalized' character of linkages bridging the interest of authoritarian states with the growing diversity of interests in Korean society. The corporatist concept has brought light to ties between both capital and the state, and labor and the state. The studies reveal the potential of a well-defined and adapted concept for penetrating the complexity of interest exchange among groups in various stages of interest consolidation and mobilization. It is the latter focus on processes and structures of institutionalization that promises greater insight into the Korean case and enhanced comparative utility for the corporatist concept.

Tsunekawa and Pempel's thesis of corporatism without labor has long dominated discussions of corporatism in Northeast Asia. My study of a shift towards limited inclusion of Japanese labor distinguished by cooperation

and reactive voice only underlines the continuing effort to identify the subordinate role of labor in the bipartite corporatist patterns of Japanese capitalism.<sup>35</sup> Given parallels with the centrality of enterprise unionism in both Japan and South Korea, and the absence in both of a social-democratic party to promote labor's interests, one would expect Korean labor to likewise struggle to gain a voice in the bipartite cooperation of capital and state. But the focus on state corporatism, particularly under the bureaucratic-authoritarian regime of the 1970s, distinguishes the Korean case and draws attention to statist controls on labor unrest.

The pioneering work of Choi Jang-jip in this area suggests a corporatist overlay of organizational control, within a wider strategy of state control across two decades from 1961. Unlike the conventional state corporatist control of labor in a tri-level system of local, federation and national center, Choi found rather that controls imposed and at time necessitated by the conflict between locals and the more comprehensive organizations of federation and national center precluded effective cooperation or initiatives among the three levels. The upper levels of the hierarchy were so torn by conflicting priorities of state goals and worker interests, and so deeply penetrated by the state, that they could exercise little control or leadership over the lower levels. Choi attributed the regime's efforts to institutionalize corporatist controls to hopes of frustrating and indeed demobilizing class formation among labor.<sup>36</sup> The author emphasized the limits of the corporatist concept and distinguished carefully between the wider authoritarian labor controls, and the institutionalized forms of corporatist control, and concluded with a 'qualified state corporatism in the Korean context.' His contribution lay in not only specifying the corporatist concept within Korean industrial relations, but also in identifying the weakness of complementary or contrasting concepts. For instance, the study of the uneven road to class formation in South Korea, particularly of class mobilization among industrial labor would provide an analytic foil and focus for corporatist efforts to hold back the chaos of class conflict as opposed to corporatist cooperation. Panitch criticized Schmitter's use of the term 'group-theoretic' for the corporatist focus, as opposed to 'class-theoretic.'<sup>37</sup> The former approach, he argued, reified organizations at the expense of groups and their concrete interests, collapsing corporatism into little more than an organizational variant of pluralism. Noel O'Sullivan faulted corporatist scholars for the inattention to interests imposed versus interests identified by the group themselves, coercion or consensus.<sup>38</sup> A focus on corporatist organization in the study of Korean labor badly needs the balance of a clearer class analysis of interest articulation and interest mobilization.

Shim-Han looked more specifically to labor law in her study of corporatism and peripheral capitalism during the Park regime.<sup>39</sup> What

distinguished her approach was the comprehensive focus on legal, administrative and social structural controls of state over labor. Her analysis of the vagaries of state 'structuring' of interest groups evident in the tortuous legal saga of labor law chronicles the causes for the inconsistent corporatist policy cited by Choi. The problem here is what she terms an inconsistency between legal principle and practice in labor law, with weak state enforcement of legislated norms vitiating legal protections of labor participation. A comparison of inducements and constraints for labor in South Korea and Latin America led her to characterize the Korean case of industrial relations as state repression within a corporatist framework. A subsequent study of industrial relations under President Chun Doo-hwan in the Fifth Republic (1979–1988) again highlighted the affinity between corporatism and state authoritarianism. Michael Launius drew the analysis of labor law through the revisions of the 1980s with close attention to both inducements and constraints, and pointed to the persistence of an exclusionary corporatism with labor as opposed to growing inclusion of capital.<sup>40</sup> The segmentary nature of state corporatism will complicate the effort to trace shifts in corporatist policy and organization in the democratization process from the late 1980s. A transition from state corporatism to an unorganized pluralist phase, and finally to a reorganized societal corporatism, whether sectoral or transectoral, may continue with increasing levels of participation in some sectors, but with persistent controls and relative exclusion in others.

If state corporatism serves as both frame and foil for state controls on labor, state ties with the leading interests of capital offer a quite different profile of corporatist dynamics. Park Moon-Kyu wrote of the 'limits of corporatist control' in state ties with capital, suggesting a weak institutionalization of corporatist patterns despite the impressive structure of business interest associations.<sup>41</sup> One problem was state penetration of business associations, limiting the association to lobbying the state on issues of regulation or redistribution, but leaving to the firms the critical function of negotiating for distribution of state credit and other resources. Another problem was the concentration and power of the major Korean firms or *chaebol*, which circumvented common efforts within associations representing industries. Yet a third problem was the availability of alternate channels for access to state support, such as 'personal relationships, power brokering, outright corruption, and political contributions.'<sup>42</sup> A fourth problem is centralization in the executive branch which leaves the corporatist framework dependent on the discretion of the government and vulnerable to its inefficiency and lack of information. The author found little evidence of consistency in government efforts to consolidate a corporatist pattern of interest mediation as an institutionalized system.

Uneven development of a corporatist framework in both industrial relations and state/business ties itself provides a focus for causal analysis.

What impedes both state and the organized interests of labor and capital from the policy and practice of corporatist mediation? Rapid recent changes spurred by democratization, market liberalization and industrial restructuring have begun to change the landscape of organized interests and their relative leverage with the South Korean state. Macro-corporatism has dominated much of the corporatist literature, but renewed concern for sectors with close attention to firms will draw us closer to actual patterns of interest exchange. A focus on the process of bargaining nudges us beyond static descriptions of ‘corporatism’ to concrete processes of ‘corporatization.’<sup>43</sup> Goldthorpe has argued that ‘in corporatist practice, interests are clearly not treated simply as sociological “givens,” and that the function of representative organizations is not merely to express, but actually to formulate interests.’<sup>44</sup> Questions of how interests become complementary appear more productive than assumptions about the congruity or discontinuity of interests and allow us to gauge the relative leverage of organizations and cohesion of interest among major interest groups.

## **Conclusion**

The question of utility leads us back to the relative merit of the corporatist concept for the Korean case. Corporatism, clientelism or theories of class and state, etc., promise to broaden our understanding of the Korean trajectory of both political and economic development only if carefully tested and specified for the Korean experience. At this early point in scholarship on Korea’s development path, the interplay of contrasting theories such as corporatism and pluralism may be as significant as the interplay of concept and case. As evident above in the Korean variants of the bureaucratic-authoritarian thesis, few would hazard to suggest the hegemony of any one theory at this initial stage of scholarship on the rapidly changing Korean political economy. What appears more rewarding is the testing of multiple theories and the effort to understand the Korean case from multiple theoretical viewpoints. The interplay of concept and case may well suggest the inappropriateness of certain theories to the Korean case or, more likely, expose areas in which concepts need far greater specification to explain the Korean case. Alternatively some concepts, such as the ‘developmental state’ noted above, offer considerable insight at the outset and with further refinement provide theoretical guideposts for research in other areas of Korean society.

The search for useful concepts leads us back to the complexity of the Korean case itself. Political economy builds upon those disciplines of the social sciences and humanities which tap the embedded character of precedent, custom, conflict and consensus across Korean history. The

absence of a feudal past or strong tradition of law on the peninsula, as noted above, deeply affects how we might understand the concept of *state* in the Korean context. Likewise, the careful historical explanation of the origins and organization of patrimonial rule in the Chosun Dynasty (1392–1910), and continuities and discontinuities under the subsequent Japanese colonial rule through 1945, will help refine and specify concepts critical for a broader comparative understanding of the Korean polity. With a clearer understanding of the particularities of Korea's modern history, the past might serve us better in sorting out directions for Korea's future.

If institution and idea remain the essence of social exchange, our study of South Korean political economy to this point has initiated the examination of the former but deferred scrutiny of the latter. Perhaps we must await further studies of literature, media and culture to establish the intellectual and social context in which to understand the ideas which drive Korea's institutions. The corporatist thesis, however, turns attention to both ideologies and organizations, for without a clear profile of the ideas governing distinctive blends of public interest and private interests, we are left with procedures without principles.

## Notes

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### 3 The enticement of corporatism

#### Appeals of the 'Japanese model' in developing Asia

*T.J.Pempel*

'How do we catch up?' That is perhaps the most perplexing strategic question confronting political and economic leaders in countries that begin to industrialize significantly later chronologically than other countries. The timing of a nation-state's industrialization has profound effects on the mechanisms political and economic leaders will attempt to utilize in pursuit of their goals. 'Catching up' requires clear strategic thinking about how best to organize the national polity and the national economy.<sup>1</sup>

The late industrializer intent on rapid economic improvement<sup>2</sup> faces at least two critical problems.<sup>3</sup> First, there is the domestic problem: how to mobilize the disparate, and often competing, political and economic resources of the nation-state into one relatively cohesive, developmentally positive, direction. How, in effect, can the collective resources of the nation as a whole be coordinated in the pursuit of increasingly high value-added production; how can 'national economic growth' be turned into what Gramsci would call a hegemonic project, i.e. a broad and coherent thrust or bias within an entire nation's policy behavior?<sup>4</sup>

Among other things, economic sectors that are normally competitive with one another must be induced to suppress or coordinate their disparate interests in ways that can be made compatible with rapid overall national improvement. In the absence of any preliminary and cohesive national consensus on both means and ends, mechanisms must be put into place to manage and/or to suppress such groups as might function as impediments to growth. Typically this means that political rulers must develop an effective strategy for dealing with such potentially 'anti-growth' sectors as landlords and generals resistant to the entire notion of industrialization as likely to undercut their power base. They also need to fend off expanding populist sectors demanding slices of the developmental pie more rapidly than is conducive to sustained long-term economic growth.

The second critical dimension is international in character. How can a country's own national interest—as defined by its ruling political and

economic elites—be advanced in a competitive world, many of whose powerful actors—both nations and corporations—have interests more typically competitive with, rather than complementary to, the economic strategies of the later developer? How does a country close the wide gap between its own economy and that of countries which industrialized earlier and which now enjoy substantial shares of world markets as well as wide leads in technological sophistication, economic productivity, market access and life styles? How does it close such gaps, rather than simply remaining some relatively fixed distance behind?

Since the early twentieth century, very few countries have played this catch-up game with much success. By the first two decades of this century, most of the currently industrialized democracies were rather well launched on their respective paths toward economic success; their subsequently increased standards of living and GNPs grew logically out of the momentum built up by their earlier industrial successes. Only with the oil shocks of the 1970s did the previously uninterrupted economic growth of the industrialized democracies hit a major snag and result in substantial movement of wealth from the industrialized north to the non-industrialized south.

That particular redistribution benefited primarily the oil-producing states, however, and did little to close the broader gap between the world's few relatively rich nations and its far more numerous poor ones. Today, the richest 20 per cent of the world accounts for nearly 83 per cent of global production; the poorest accounts for only 1.4 per cent. And the gap between rich and poor is widening. In 1960 the ratio between the richest 20 per cent of the world's population and that of the poorest 20 per cent was 30:1. In 1970 it had risen to 32:1; by 1980 it was 45:1, and in 1989, it had jumped even further to 59:1.<sup>5</sup> Only a very small number of once poor countries have substantially improved their relative positions in the international hierarchy.

Meanwhile, even in the face of such a widening gap between the richest and the poorest, most countries within the industrialized world also confronted a serious economic slowdown during the 1970s and 1980s. For the first time in the postwar period the economic performances among the industrialized democracies began to demonstrate widespread disparities. For a period in the late 1970s and early 1980s, most of the industrialized democracies (particularly the larger and more pluralistic among them) languished in whirlpools of 'stagflation,' spiraling downward through slow growth, high inflation and (usually) high unemployment. A few quite conspicuous exceptions, however, stood out, demonstrating quite contradictorily positive combinations of moderate to high growth, low unemployment and low inflation.<sup>6</sup> These were countries having one or another version of corporatist political economies.

The unbridled success of the richer corporatist democracies did not hold into the late 1980s and early 1990s for several reasons that will be explored below. However, based on the gaping differentiation in the economic performances among the industrialized democracies during the earlier period, corporatism (in one variant or another) was widely hailed as a pattern of politics (and a possible policy prescription) that would allow for superior economic performance.

In addition to the European corporatist regimes, meanwhile, a second major exception to the prevailing economic downturns of the post-oil shock years occurred with a number of Asian economies also enjoying high levels of economic success. These stood in striking contrast to both the preponderant performances within North America and Western Europe, but even more significantly in contrast to the languid non-growth in the rest of the so-called developing world. Asia was the one geographical area of the so-called Third World that showed consistent successes in the game of economic catch-up.

Japan, of course, had made tremendous economic progress during the late nineteenth and early twentieth centuries, only to see its positive trajectory blunted by authoritarianism, imperial expansion, Western protectionism, and, ultimately, military and economic collapse. But in the first four decades following the Second World War, Japan led the world in the rapidity of its economic growth. And by the mid- to late-1980s, the so-called Four Tigers (Taiwan, South Korea, Hong Kong and Singapore) were also attracting world attention with growth rates even more spectacular than Japan's. In subsequent years, Malaysia, Thailand and then Indonesia and South China, all began to demonstrate similarly explosive economic performances.<sup>7</sup> But most of these countries, like the rich corporatist democracies, also encountered massive economic difficulties, primarily during the mid- to late-1990s. It thus presents an intriguing puzzle to inquire about the extent to which corporatism could have contributed both to the economic successes, and subsequently to the economic downturns, of such disparate economies.

The term 'corporatism' has become a widely stretched concept, with widely differing uses by different analysts. Clearly, the political economies of the European corporatist regimes and those of the rapidly developing economies of East Asia are in many respects quite different. While both groups of countries have embraced one or another version of corporatism it must quickly be added that the corporatisms of the industrialized democracies differ in several important respects from the corporatisms practiced in East Asia. Four differences are particularly noteworthy. First, corporatism in Europe emerged out of strong and autonomous social organizations. Second, it occurred in the context of well-established

democratic political systems with strong roles for political parties. Third, it included a substantial and institutionalized policymaking role for organized labor at the plant and at the national level. Fourth, European corporatism involved the development of an extensive (and expensive) governmental apparatus delivering a widespread array of social welfare benefits. On all four of these points the Asian versions of corporatism were quite different.

Rather, in East Asia, corporatism emerged most frequently as a result of state initiatives, rather than the autonomy of societally created interest associations. Democratic institutions and political parties are not usually well entrenched. Organized labor has been systematically marginalized from any key policymaking roles throughout the Asian economic success stories. And finally, the economically successful East Asian regimes have advanced under small governments with a collective aversion to what most perceive to be the economically enervating impact of the social welfare state.

These differences are crucial. At the same time, sufficient similarities between the two types of corporatism warrant their comparison under a common label. Most particularly, the two versions of corporatism share a common organizational strategy for dealing with the dual problems of domestic division and international weakness noted above. Rather than a plethora of highly autonomous interest groups fighting for a place at the public trough, as is usually the case in liberal pluralistic systems, these countries have been characterized by a far more limited number of interest associations, typically with only one association representing each key segment of the economy. Furthermore, corporatism privileges a domestic politics based on coordination and cooperation among a limited number of socio-economic sectors, all of whom are expected to cooperate in the march toward common 'national goals.'<sup>8</sup> This united domestic front in turn allows the corporatist regimes a measure of solidarity in confronting international problems, one of the most extreme of which is a relatively hostile world economy.

### **The corporatist appeal**

'War,' W.G. Sumner once observed, 'intensifies societal organization.' One can make the same observation about international economic weakness. The pressures on a nation's leadership to adopt some form of collective national approach to the world economy are overwhelming. National economic success is difficult to achieve under economic and political systems marked by *laissez faire* economics and electoral democracy in which the rational maximizing consumer is privileged over the larger social collectivity.

Early industrializers such as Britain, Belgium, and the United States did not need particularly rigid domestic political, economic and social structures to gain predominance in the world economy. Quite the reverse: their decentralized political and economic structures were vital to their rapid success.<sup>9</sup>

Conversely, fixed world markets and more complicated manufacturing technologies create higher entry costs for the late industrializer. Patent and other technology transfers can provide almost instant access to the world's most advanced technologies and imitation of the successfully industrialized is usually easier than forging new paths. Far more capital is available worldwide in the late twentieth century than there was a hundred, or even twenty years earlier. Nevertheless, such surface level advantages to the late industrializer must contend with the increasingly sophisticated nature of production and the wide gap between the level of development of the early developers and those seeking to catch up. These typically require successively higher concentrations of capital and organizational resources. Moreover, the technological productivity and market share gaps between leaders and followers grow vastly more extensive with time. And the domestic socio-economic demands of governance are far more burdensome for most late industrializers than they were for those who began much earlier. Economic growth without unwanted foreign compromises on national sovereignty becomes progressively more difficult to attain. As a consequence, the more cohesive a nation's policy network and the tighter the patterns of associability within the country as a whole, the greater the likelihood that a country can enhance its chances of closing historically established gaps and eventually competing effectively for previously fixed world markets shares.

It was precisely such cohesiveness in the areas of iron, steel, and chemicals that allowed Germany in the late nineteenth century to catch up with and eventually to surge past, Britain. The latter had domestic structures founded on the far less cohesive principles of Manchester liberalism, free trade and domestic political openness that were all conducive to the development of its textile market. Successful later industrializers such as Sweden bore far greater resemblance in their political and economic organization to Germany than to Britain.

The international economic market clearly rewards certain forms of domestic organization just as it punishes others. Thus, an important contemporary question becomes whether any country whose firms do not already hold predominant positions within the world economy can afford *not* to follow a collectivist pattern of domestic associability so as to improve its relative economic standing.

Certainly, research on the importance of the product-cycle in shaping domestic political structures suggests that it is unlikely that conditions conducive to the political liberalism of Britain, the US and other early industrializers can be repeated by nation-states industrializing much later. Thus, in Meiji Japan or in contemporary South Korea or Taiwan, although agriculture and later the textile industry were initial generators of the capital needed for industrialization, political democracy and economic liberalism did not emerge as prevailing political ideologies. Instead, weakness in the international economic system exerted tremendous pressures on such countries to develop collectivist, corporatist or otherwise domestically cohesive political and economic structures, especially in their leading industrial sectors.<sup>10</sup>

In addition to the international dimensions of such pressures for internal cohesiveness, corporatism also holds out attractive domestic appeal. This comes in its purported capacity to smooth the management of domestic problems of sectoral, or class, conflict. Ease of political bargaining as well as top-down political control are enhanced by the organization of broad social sectors into single, monopolistic, peak associations that are recognized by the state as official sectoral representatives. Intra-elite bargaining is facilitated by the relatively limited number of those bargaining. So too is the internalization, within the sector, of the adjustment costs involved in any bargains eventually struck. Actual implementation of elite bargains is also fostered by such cohesive organizations.

Such advantages—the management of internal conflicts and the consequent enhancement of international bargaining power—gave strong appeal to one or another variety of corporatism within segments of the industrialized world since the 1930s.<sup>11</sup> And, with the modifications to be noted, it is precisely those same appeals that proved so attractive within Asia.

To appreciate the situation of the currently industrializing countries in Asia, it is well to examine first how corporatism has emerged and functioned within the industrialized democracies of Western Europe. Only in such a way can one appreciate the differences in corporatism that have been pursued in Japan, and the reasons why the Japanese, rather than some Western European, version of corporatism has such potential appeal in other parts of Asia, including South Korea. But furthermore, an understanding of the roots and limitations of European and Japanese corporatist arrangements will help to counterbalance some of the most optimistic predictions about the potential salvific qualities of corporatist arrangements for late-industrializing Asia.



## Corporatism in Western Europe

Although the concept had been around since at least the 1920s, corporatism became something of a buzz word during the mid-1970s. The reasons were quite obviously linked to economics. Following the first and second oil shocks and the breakdown of the Bretton Woods monetary system, the economic performance of countries then characterized as corporatist were so much superior to those of the non-corporatist nation-states. This was most notably true of such standard economic measures as unemployment, low inflation, and overall growth in GNP.

In addition, most of the corporatist regimes dealt well with problems of ‘ungovernability;’ they consistently ranked comparatively low in citizen protests, violence, and government turnover. Conversely, they ranked high in the ability to set national priorities and to secure societal compliance with administrative goals.<sup>12</sup>

Along with such sweepingly positive performances, these ‘societally’ corporatist countries simultaneously manifested many of the most politically desirable characteristics of democracy, including free press, multiple political parties, meaningful elections, dynamic interest group competition, and significant citizen enthusiasm for, and participation in, politics.

In contrast, countries organized around principles of pluralism seemed to be characterized by political chaos and economic stagnation. Consequently, the corporatist regimes functioned for a time as delightful paragons of political order and economic flexibility, as well as beacons attracting academic attention. Conversely, countries such as Britain, Italy and the US struggled in their efforts to develop common national policies to ward off their eroding international economic competitiveness. As a result, they were criticized by journalists and academics alike, with scholars such as Mancur Olson offering perhaps the most extreme formulation. In contrast to corporatist countries, he argued, the pluralist regimes had inefficiently archaic political institutions ‘excessively dominated by interest groups’ who easily became ‘free riders’ on government programs while lobbying successfully for a series of *ad hoc*, rent-seeking benefits detrimental to the overall national economic interest.<sup>13</sup>

Peter Katzenstein was particularly influential in detailing the ways in which the small European corporatist regimes dealt with adjustments to changing world economic conditions. Differentiating them from both pluralist and statist regimes, he noted that the former manifested several important traits that gave them great adaptability to changing world markets and that reduced Olson-esque rent-seeking potentials at home. Most importantly, all were small states with open economies. As such they were in no position economically or politically to try shaping the international

economy by themselves; nor could they very effectively resist the constant and massive external pressures on their own economies. As a consequence, these countries had developed domestic economic arrangements that relied on regularized and rapid adjustments to continual international economic shifts.

All corporatist nation-states shared a relatively centralized and concentrated system of interest groups.<sup>14</sup> Voluntary and informal coordination of conflicting objectives prevailed through continuous bargaining between interest groups, state bureaucracies and political parties. Overarching such structural features was a pervasive national ideology of social partnership.<sup>15</sup>

'Liberal' corporatist regimes differ from 'social' corporatist regimes depending on whether the country, in its constant adjustments to external economic forces, relied more on market-driven adjustments or on macrosocietal tradeoffs offered under state leadership. But all were united by the fact that they could adjust quickly as a consequence of their domestic structuring of key economic sectors, including labor and business. The structural patterns of corporatist organization are of course historically grounded, but they emerged in large part because both political and economic elites saw no viable alternatives.

As noted above, the broad comparative focus of most examinations of corporatism concentrated on explicating the similarities and differences in the economic adjustment strategies among the advanced industrialized democracies. Most typically, the attention was on comparisons among the countries of Western Europe. Consequently, taken almost for granted, and dramatically different from the later industrializers in East Asia, was the underlying presumption that the principal economic tension to be resolved was that between labor and capital. Hence, despite the fact that most early articulations of corporatism had included the organization and interaction of a host of socio-economic groups, including agriculture, small business, professional groups, and the like,<sup>16</sup> by the mid-1980s, the term 'corporatism' had, at least among the industrialized democracies, been conflated to a focus exclusively on peak association bargaining between organized business and organized labor.

Clearly, the corporatist organizations that prevailed in the small countries of Western Europe had emerged as autonomous, socially created, 'bottom-up' interest associations within well-institutionalized democracies with highly competitive political party systems. This was in striking contrast to the 'top-down' associations created by early state corporatist regimes in places like Spain, Portugal, Brazil, Argentina and prewar Italy and Germany.

Furthermore, all of the neo-corporatist regimes in Western Europe that were highlighted as success stories in the 1970s and early 1980s were

characterized by a strong labor movement and a pro-labor political party. Typically, by the 1930s or 1940s, this combination had resulted in a strong national policymaking role for political parties of the left and a strong economic role for peak labor associations.<sup>17</sup>

The combination of a strong and well-institutionalized left, plus very small national markets meant that business, labor and the state were compelled to cooperate economically. Failure to do so—in effect a political economy driven by a plurality of self-motivated interest groups—virtually guaranteed an undermining of national unity that would put the ship (or, in the case of these small states, the rowboat) of state at great risk of capsizing in the high waves of international economic forces.

Over time, the political strength of the left in all of these countries catalyzed what Castles has called a ‘virtuous cycle’ in which the left’s power in government plus labor’s power in the market, fed on one another. The result was a longstanding left-wing ideological tilt that involved, among other things, a wide range of institutionalized social welfare benefits for large portions of the national populace, and an ever-increasing institutionalization of left-of-center governments.<sup>18</sup> In turn, the political benefits provided by a strong welfare state served as partial compensation for the adjustment costs made by workers at the factory level in the perennial process of economic adjustment.<sup>19</sup>

With the hindsight of the 1990s, the ‘corporatist bubble’ seems to have burst. The economies of the Netherlands, Austria, Denmark and Sweden, to take several easy examples, have slowed and/or actually foundered. And indeed, their declines are closely linked to certain corporatist practices. Most notably, these regimes provided extensive, but costly social services that drove up taxes, interest rates, and (when growth was slow) public debt. In addition, extensive use of the public sector to keep down unemployment also began to impede long-term growth.<sup>20</sup> Moreover, highly corporatized Sweden, with its powerful peak association of labor and with virtually 90 per cent of the national work force unionized has done far less well economically than much less corporatized Germany with a more decentralized and smaller union population.<sup>21</sup> Meanwhile, the economies of such non-corporatist regimes as the United States, Canada, and Britain, have rebounded.<sup>22</sup>

The early fascination with Europe’s societally corporatist regimes is thus forced to confront several problems possibly endemic to corporatism itself. Perhaps most significant are the institutional rigidities and path dependency of corporatist arrangements. More concretely, powerful national union federations, with a strong focus on membership protection may make it exceedingly difficult for businesses and governments to reduce labor costs as a mechanism of adjusting to changing world economic conditions.

Similarly, corporatism's concentration on the *distributional* benefits of peak bargaining has made many union movements resistant to actions that might compromise such benefits in the interests of longer-term *productivity increases* that might conceivably benefit both management and labor, as well as the nation as a whole.<sup>23</sup> Finally, a heavy reliance on public sector workers and expensive public services runs the risk of reducing national economic competitiveness as well as driving a wedge between public and private sector workers, and creating mountains of public debt.<sup>24</sup>

Regardless of the specific economic performances and problems of the European corporatist regimes most recently, however, several quite obvious impediments make even the successes achieved under the societal corporatism of Europe of limited appeal to late developers in Asia. Three are particularly striking. First, the small European economies have been historically 'open' to international competition. Second, these economies were marked by a position of privilege for organized labor and parties of the left that is traced back to the 1930s and 1940s. Third, the role of the state has long been subordinated, in the European corporatist regimes, to the role played by interest groups, primarily by business and labor. Societal controls over the state apparatus are well institutionalized and European style neocorporatism emerged only after long periods of well-institutionalized party democracy.

On the first point it should be noted that these regimes opted historically for a continuous and rapid adjustment to changes in the international economy because they were effectively unable to keep out foreign direct investment and foreign imports. This strategy worked well for countries with small domestic economies, requiring access to other markets for the export of their own niche-market goods, and incapable of producing domestically all that its citizens desired to consume. Economic nationalism, mercantilism, and autarky were never viable options for most of the neocorporatist regimes of Western Europe.<sup>25</sup> Opening their own markets to trade and investment was the logical course of action; moreover, economic openness was possible because these countries, when they opted for corporatist arrangements, had reached relatively high levels of national economic well-being. They were countries with established industries and rather high living standards for their people; as such, they were less concerned with 'catching up' with other industrialized countries and more concerned with simply 'keeping up' and sharing or increasing the benefits of economic well-being among their citizens.<sup>26</sup> The historical conditions in developing Asia have been strikingly different.

Economic openness has hardly been pervasive or appealing in developing Asia.<sup>27</sup> True, Singapore and Hong Kong have essentially been quite open to foreign direct investment and most trade. But both are essentially city-

states, not full national economies. Taiwan, South Korea, and most of the South East Asian economies, as well as Japan, opted largely for mercantilist policies designed to protect emerging national industries and to ward off the perceived challenges to national sovereignty seen to be posed by foreign capital and non-national managerial control.<sup>28</sup>

Moreover, 'catch-up' dominates the economic ideology of all of the Asian economic success stories. Even today, the country with the highest GNP per capita, Singapore, has barely drawn even with Italy; Hong Kong is much closer in GNP/capita to Spain and Greece. For Taiwan and South Korea, let alone Malaysia, Thailand and Indonesia, the gap between their own economies and those of most European countries is vast. As such 'catching up' remains a pervasive national goal. An open national economy has not been viewed by most of the leadership in the Asian NICs as a persuasive means by which to close the gap between themselves and the advanced economies of the world. Protection at home and the export of manufactured goods, primarily to the advanced industrial democracies (the US in particular), have been the prevailing strategies.

The second major detriment to the European corporatist appeal in Asia has been the powerful role played by organized labor and the political left. For most of the emerging economies of Asia a principal comparative advantage has been cheap and relatively well-educated labor forces, along with small and relatively low-cost governments—states in no way modeled after the European 'welfare state.' Retaining these respective advantages in labor costs and low-cost government, to mention only the most obvious economic motivations, has mitigated against encouraging and/or recognizing labor unions and against voluntarily introducing the social welfare programs that in Europe have been pushed primarily by left-of-center political parties.<sup>29</sup>

Finally, on the third point, studies of the state apparatus in the European corporatist regimes make it relatively clear that the national bureaucracy takes a subsidiary role in structuring economic arrangements. Far larger is the role played by these countries' relatively autonomous interest associations. Societal pluralism and socio-economic differences are taken largely for granted within such countries and political parties and elections are well-established mechanisms designed to represent these differences and to help balance the interests of both state and society in these countries. In short, pluralistic democratic politics is a given under European neo-corporatism.

Socio-economic differences and societal cleavages are hardly absent within the later developers in Asia. Nor should one deny the very real openings toward political democratization that have occurred in recent years, particularly in Taiwan and South Korea.<sup>30</sup> But far more striking are the pervasive appeals throughout the region of ideologies that stress organic

beliefs in 'national harmony,' 'coordination,' and alleged 'Confucian consensus.' Quite weak are the established roles for socio-economic pluralism, political parties, and elections while all have shown far greater expectations for a developmental role played by the state and the national bureaucracy.

In short, the social democratic corporatism of the small states of Western Europe held little inherent appeal or promise for developing Asian regimes at least in the early stages of their development. Yet a different version of corporatism, one that Tsunekawa and I have elsewhere called 'corporatism without labor,' does have an appeal.<sup>31</sup> This pattern, present primarily in Japan, has offered a 'corporatist' alternative capable of avoiding some of the major impediments found in the European corporatist model and of holding out far greater appeal to the later developers of Asia.

### **The Japanese version of corporatism**

The European model of corporatism discussed above fits relatively clearly into what Schmitter has labeled societally generated corporatism. Relatively autonomous interest groups emerged historically and, through effective representation of their memberships and a capacity to articulate the interests of those members at the national level, the groups came to acquire state acceptance as the sole legitimate voice for those interests. The central concern for neo-liberal corporatism was the resolution of conflicts between business and labor, and corporatist bargaining took place in the context of a broader climate of electoral and party democracy.

Yet, the original version of corporatism, that predominant from the 1920s into the 1940s in parts of Europe and even longer in parts of Latin America, Spain and Portugal, was an almost completely contrastive form of political association intimately linked to authoritarianism and fascism. Mussolini's Italy, the Austria of Dollfuss, and Salazar's Portugal, along with most of the corporatist variants in Latin America and southern Europe were alike in their top-down, state-driven generation of corporatist associations; in their repression of left-of-center political parties and labor unions (or at least the state-incorporation of the latter); in their anti-pluralistic and anti-electoral approaches to political organization; and in their anti-*laissez-faire* efforts to achieve economic autarky.<sup>32</sup> Moreover, in the statedriven version of corporatism, not only business and labor, but also a much wider variety of economic and professional associations were subjected to state-initiated incorporation.

It was this model of corporatism that prevailed in Japan during the prewar period. A strong centralized state worked closely with peak associations of

big business, small business and agriculture to advance the national economic interest as defined by that socio-state coalition. In contrast, unions and the left-wing parties that sought to advance their interests were subjected to systematic state and business repression, primarily through the national police, but also through business-mobilized scab workforces. Consequently, Japan's union movement enrolled only about 6 per cent of the workforce during its organizational highpoint in the late 1930s. Furthermore, while many Japanese industrial sectors, including textiles and silks, gained increased access to world markets, and some Western firms began investing in manufacturing within Japan, by the 1930s, official Japanese policies were moving toward greater efforts at an autarkic empire —partly out of self-defined economic and strategic interests, partly in response to a closing of world markets.

The organizational, and more importantly, the ideological legacy from this prewar period has held considerable appeal to postwar Japanese governments despite the institutionalization of electoral democracy, interest group competition and party influence.<sup>33</sup> Japan also enjoys a free press, a relatively well-informed and autonomous citizenry, competitive and meaningful elections, highly competitive and freely organized interests, a range of ideologically diverse political parties, and the like. Even the skeptic who questions how deeply 'democratic roots' have penetrated into either the Japanese citizenry or into the Japanese state must recognize that by most such formal criteria, contemporary Japan can make as legitimate a claim to being democratic as any of the other OECD countries.<sup>34</sup>

At the same time, several corporatist and quasi-corporatist features of Japan's political economy, both prewar and postwar, held out appeal to the rest of Asia. It is impossible to reconstruct the entire argument of 'corporatism without labor?' but several points should be highlighted because of their apparent congruity with situations in developing Asia and, more importantly, because of their undeniable appeal to Asian business and political leaders.

First of all, Japan has retained the organizational structures of corporatism in several key economic sectors, even as these now are societally rooted rather than state-generated. Most of Japan's important industrial groups are represented in *Keidanren* (the Japan Federation of Economic Organizations). In addition, individual industries are tightly organized into peak trade associations with real influence, if not control, over their member firms, as well as representational power for these interests in broader national councils. At the level of individual firms, the *keiretsu* system organizes many individual firms into oligopolistic groups through common banks, trading companies, cross-holdings of stocks, holding companies, sub-contracting, and extensive single-company distribution networks.<sup>35</sup>

Close organization and oligopoly are prevalent throughout Japan's business world. For the bulk of the postwar period, anti-trust was at most a residual philosophical legacy of the American Occupation forces, accepted in virtually no government offices outside that of the politically irrelevant Fair Trade Commission. Doctrines of anti-trust, free trade and open capital markets had virtually no practical impact on the actual economy.

Equally important in the Japanese case, however, are the corporatist organizations affecting agriculture and small business. Also emerging from state-corporatist associations, these groups have become deeply societal in character. Ninety-nine per cent of Japan's farm families are organized into *Nōkyō*, the single peak association of farming cooperatives. Small businesses, meanwhile, are represented in local chambers of commerce, specific industry groups and in the national peak association of small business. The corporatist powers of both economic sectors set off Japanese societal corporatism from the almost exclusively business-labor focus of societal corporatism in Western Europe.

These two well-organized sectors have over the postwar period exerted substantial policymaking influence at the national level in their particular spheres of economic concern. For agriculture this has meant, among other things, extensive agricultural subsidies; rural credit and banking facilities; strong control over access to such things as chemical fertilizers and farm machinery; rural development monies; nonagricultural job opportunities in rural areas; and most importantly (with diminished effectiveness in recent years), official protection from foreign imports.

For small businesses, strong organization has meant cheap government loans; assistance in the introduction of new production processes and marketing techniques; lucrative government programs; a generously blind governmental eye toward tax evasion; export assistance; restrictions on competitive large stores; and also extensive regulations designed to resist foreign market competition.

The most striking exception in Japan to the European corporatist pattern has involved organized labor. Quick to organize during the heady left-of-center years of the early US Occupation, Japan's unions soon came to enroll somewhat over 50 per cent of Japan's workforce by the early 1950s. Parties of the left gained electoral power; segments of business seemed ready to bargain collectively. In short, Japan in the early postwar period shared certain conditions that had led to societal corporatism in many parts of Western Europe.<sup>36</sup>

These conditions quickly changed, working against any European-style peak bargaining pattern and left-of-center government. At the national level, Japan's union movement fragmented into several major and competing federations, no one of which could claim to represent more than one-third



of the union members. Meanwhile, at the plant level, Japan's enterprise unions were organized in ways that worked against any horizontal national mobilization as a united labor front.

Several major consequences followed. Most importantly, the ideological left, and the parties of organized labor, were almost completely excluded from participation in governance. With the sole exception of the brief socialist coalition government under the Occupation in 1948–49, Japan had exclusively 'conservative' governments from the first parliament in 1890 until the splintering of the LDP in July, 1993.

Also important, workers, particularly in the private sector, were organized in ways that encouraged them to identify their economic interests less in class terms, less as 'workers of the world,' and more in company terms, primarily as workers within specific firms. Managers in turn found it easier to exercise control over workplace activities and to move workers within the firm as they best fit management's definition of company need.

The major exception to plant-level organization came in the form of the annual 'spring struggle,' in which the national labor federations and their members took to the streets to demand particular levels of national wage hikes and additional benefits. Such efforts at public 'negotiation' were a far cry, however, from the kind of closed-door peak-level bargaining that took place in corporatist Europe between business and labor 'equals.'

Meanwhile, in 1955 Japan's Ministry of International Trade and Industry (MITI) established the Japan Productivity Center to introduce new personnel and management practices aimed at enhancing company productivity. While the most radical national labor federation, *Sōhyō* and its affiliates, refused to cooperate with JPC, *Sōdōmei* and *Zenrō* (predecessors of the more moderate *Dōmei*) did cooperate. The result was a further fragmentation of national union federation practices and an enhancement of company-specific efforts to increase productivity and tying these to higher wages and expanded employment.<sup>37</sup>

In these and other ways, Japanese labor was 'encorporatized' exclusively at the plant level. Policies to fuse labor interests with those of the firm were begun as early as the mid-1950s. Private sector policies grew out of broad *Nikkeiren* and *Keizai Dōyukai* calls to mobilize labor–management relations in the interests of increased manufacturing productivity. 'Second unions' were utilized to isolate and side-step the most radical unions and their plant-level demands. The result was an inclusion of 'acceptable' unions at the factory level.

Company practices designed to retain the 'core' workforce and to enlist worker support for new management practices and technologies were also adopted by Japan's largest firms as early as the late 1950s, particularly in the shipbuilding, chemicals and heavy industries. These included implicit

guarantees of long-term employment, the institutionalization of the bonus system, post-school recruitment of entire classes of employees, and a host of other practices. As the need for manual labor and machine operators decreased and automation and managerial oversight functions increased, so did the firms' emphasis on intra-firm retraining programs, supervisory selection based on technical knowledge and leadership, and 'personnel management by line personnel.' Work group leaders who might well be union members were enlisted in the tasks of supervision, information transfer and personnel maintenance.

Joint consultation between labor and management at the plant level, as opposed to explicit collective bargaining, was the major outcome. One survey by the Japan Productivity Center showed that by the early 1970s, 80 per cent of the 1600 major companies listed on the Tokyo Stock Exchange had established some form of permanent system of joint consultation at the enterprise level.<sup>38</sup> There was also an increasing identification by plant-level union workers of their own future economic well-being with the increased productivity and profitability of the firms where they worked. Indeed, at the plant level, Japanese corporatism had come to create what Swenson identified in Sweden as 'cross-class coalitions' in different economic sectors.<sup>39</sup>

Overall, this meant that for most of the postwar period Japan had a labor movement that was systematically shut out of most national governmental policymaking but that at the individual plant level enjoyed what Dore has referred to as 'amiable social contacts' with management,<sup>40</sup> or what might be thought of as 'plant level corporatism.'<sup>41</sup> Among other things, it resulted in the kind of plant-level harmonization of worker and business interests that involved workers showing up fifteen minutes early, singing the company song in the parking lot and then working doubly hard to 'embarrass management into granting our demands.'

Nor were Japanese enterprise unions ever particularly aggressive in their recruitment of 'non-core' workers, most especially individuals who worked part time (predominantly women and the elderly), subcontractors, and those who worked in smaller firms. Job security and benefits to the unionized core work-force took on primary concern to the bulk of the Japanese union movement.<sup>42</sup> The end result was that Japanese union membership shrank constantly over the postwar period. And meanwhile, 'non-core' workers provided management with numerous buffers that could be used to adjust labor costs to changing business conditions.

At the time of the first oil shock the pattern of plant-level unionism combined with government and business efforts to control wage-push inflation gave the union movement a period of temporary influence. And in 1989 Japan's labor movement finally forged a single national peak association, Rengo. But when this association was formed, Japanese union

membership had shrunk to about one-quarter of the national work force, and Rengo still accounted for only about 60 per cent of the unionized workers. Moreover, union dues went primarily to the local level, not the peak-national level, while national staffing of Rengo was sparse. Finally, and most importantly, by the time Rengo was created, union members had long since come to identify their economic success with the success of their individual firms and with increased company productivity and profitability, not with national-level peak bargaining along class, business-labor or redistributional lines. A future Japanese corporatism in which Rengo would play a role comparable to that of the Swedish LO or the Austrian OGB seems highly unlikely.

Thus, viewed over the postwar period, the story of Japan's labor movement (at least in the private sector) was one of gradual de-radicalization, ideological de-fanging and progressive incorporation into the government's and big business's pro-growth strategy.<sup>43</sup> Yet, as was seen by the tremendous macro-economic success that Japan enjoyed from 1952 until 1990, the overall national results were quite positive. Despite certain well-catalogued weaknesses of labor even within the European corporatist regimes, none of those regimes experienced anything comparable to Japan's pattern of labor-management relations, its national-level labor isolation, nor its stupendous macro-level economic performance. Whereas the guiding principle in corporatist Japan was business-labor *cooperation*, in corporatist Europe it was *codetermination*.

In addition to the marginalized position of organized labor and the seemingly linked economic success, two additional features of 'the Japanese model' also contributed to the country's potential appeal to much of the rest of Asia. First, as implied above, Japan's conservatives were able, within the framework of electoral democracy, to enjoy a long period of uninterrupted single-party rule. Through a combination of: gerrymandered electoral districts; Japan's peculiar single-ballot, multi-member electoral district system; close ties to business groups which provided needed campaign funds and other political expenses; institutionalized links between the ruling LDP and the corporatist associations in agriculture and small business; a series of very astute accommodations to a variety of competing economic and other interests; as well as some highly popular policies that advanced the livelihood of virtually all of Japan's citizens, Japan's Liberal Democratic Party retained power for 38 years—from its formation in 1955 until its fragmentation in the summer of 1993. Whimsical populist mood shifts were incapable of toppling the pro-business regime.

Government stability, meanwhile, provided a comfortable umbrella under which Japan's well-trained and talented bureaucrats could cooperate with key economic groups to provide cheap capital for industrial investment;

externalize many research expenditures; bring in foreign technologies without foreign managerial control; regulate prices; generate fixed market shares; and restructure entire industries; in short where business and government could work together in a spirit of 'reciprocal consent,' designed to ensure consistent growth and profitability for many of Japan's industries and firms.<sup>44</sup> Thus, unlike the European corporatist experience, the Japanese experience was quite consistent with an activist state bureaucracy. This point too has held high appeal to late developers in the rest of Asia.<sup>45</sup>

Finally, Japan's overall economic policies have been part of a clearly nationalist and/or mercantilist Japanese model.<sup>7</sup> For the bulk of the period from the end of the Second World War until at least the mid-1970s (and with important residues remaining even today), Japan's government and business community avoided what many late developers feared as the most negative effects of foreign direct investment, foreign import competition and foreign management. Throughout the period of its 'catch-up,' Japan's economy remained essentially in the hands of Japanese nationals. Foreign penetration of the core economy was minimal.<sup>46</sup> At the same time, unlike simple import substitution strategies which seek national control of the domestic economy, Japan's firms were also geared toward developing worldwide export markets for many key products. This export-led focus eliminated many of the weaknesses inherent in industrialization based on simple import substitution.

There is no question but that many foreign firms have done well in Japan of late. Nor is there any denying that some real openings have taken place in certain important Japanese industries in the 1980s and 1990s. But for the most part, these came *after* Japanese firms had established serious and competitive positions, particularly within the Japanese market, but also in most cases in international markets as well. During the 1950s, 1960s and much of the 1970s, Japanese companies competed with one another in the Japanese market as well as to develop and export to overseas markets, but to do so without fear that far more market-efficient Western firms would attack them in their protected home markets.

Even as late as 1986, one comparative study showed that only 1 per cent of Japan's assets were owned by foreign-controlled firms. In the United States, by way of contrast, foreign-controlled firms owned 9 per cent of the assets, employed 4 per cent of the workers, and accounted for one-tenth of all sales. And even the US looked autarkic in comparison with the major European countries. In Britain, 14 per cent of its assets, one-seventh of its workers, and one-fifth of the nation's sales were accounted for by foreign-controlled firms. In West Germany, foreign-owned companies held 17 per cent of assets and accounted for 19 per cent of sales, while in France, foreign dominance was greater still.<sup>47</sup>

On balance, therefore, the Japanese experience with corporatism has at least three major appeals to later industrializers that the model of European corporatism lacks. First, it was followed by a late industrializing country, one that did indeed catch up and actually surpass many of the earlier industrializers, all under an ideological umbrella of 'national unity' and organic theories of government that stressed 'social harmonization' over social-sectoral competition.

Furthermore, corporatism in much of Europe is now being subjected to numerous criticisms for the ways in which it has institutionalized patterns of power that work against rapid adjustment to changing international conditions. The most corporatist European states have for the main part fallen off their pedestals of economic success, largely many would argue, because of their particular patterns of corporatist bargaining.<sup>48</sup> While the problems of Japan have been numerous and unmistakable following the bursting of the 'economic bubble' in 1989, and accusatory fingers are pointed in many directions, absolutely no-one is attributing that demise to Japan's version of 'corporatism without labor.' Nor has Japan's economic downturn been linked to high rates of public employment, large social welfare programs, battles between public and private sector unions and the like. Japan's recent problems trace to very different conditions than do those of the European corporatist countries.

Second, the Japanese experience suggests a way to deal with labor that avoids some of the major detriments to growth that were experienced by the European countries, namely the creation of a massive welfare state and severe checks by organized labor on either state policies or the independent managerial strategies of major corporations. Rather, by incorporating labor at the plant level, Japanese corporatism tied labor's fortunes inexorably to increased company productivity, thereby avoiding some of the worst extremes of class conflict, business-labor division, and union pressures against company adaptability that, during early industrialization, in Asian eyes at least, played such havoc in North America and Western Europe. Indeed, such linkage between labor interest and company productivity is seen by many as a key explanation for both Japan's micro-level and macro-level economic successes.

Third, in Japan, the national bureaucracy retained the authority to play a substantial role in guiding national economic development. To the extent that political competition and formal democracy were introduced into Japan, these were mitigated by the fact that a broadly inclusive conservative political party succeeded in establishing electoral hegemony for nearly forty years leaving state bureaucrats far less constrained by electoral demands and citizen demands than was true in Western Europe.

## **Conclusion: How was the Japanese model introduced into developing Asia?**

That Japan long exerted preeminent influence over other Asian countries seems unmistakable. Its economic influence throughout the region is undeniable, both in the form of trade and foreign direct investment. So, too, has Japanese culture if one takes as representative models the regionwide penetration of Japanese karaoke, discos, and teen and youth magazines such as *Popeye* and *Brutus*. But for the points made in this chapter, it is necessary to look at the institutions of political economy as well.

It was in this regard that Malaysian Prime Minister Datuk Seri Mahithir Mohamad called on his fellow Malaysians to 'Look East' toward Tokyo as their model. For him, it was not simply Japan's economic organization, but also its political organization, and especially its single party conservative rule, that was appealing. Similarly, Singapore's former Prime Minister Lee Kuan Yew modeled his People's Action Party on Japan's Liberal Democratic Party and has been an unswerving cheerleader of the Japanese experience.

Perhaps most significantly, Japan's colonial legacy, as Bruce Cumings has shown so effectively, was deeply felt in Korea and in Taiwan.<sup>49</sup> The procorporatist institutional legacies in both countries are strong, particularly in such areas as the national bureaucracy's role in economic planning; the key role of the central government in capital formation and allocation; patterns of industrial organization; agricultural and small business organization and so forth.

Conscious imitation since 1945, albeit with numerous individual variations, can be found in other areas. Following political liberalization in 1983, Taiwan revised its electoral laws to create a single vote multi-member district system similar to that of Japan. The system provides low entry barriers to new parties, strong rewards to very large parties, and severely penalizes medium-sized parties such as Taiwan's major opposition party, the Democratic Progressive Party.<sup>50</sup> Aware that the system has worked exceedingly well in Japan to reflect multiple societal interests electorally without seriously challenging the position of the ruling LDP,<sup>51</sup> Taiwan's leadership has similarly buffered itself against potential curbs on state power from elections and opposition parties.

In a comparable fashion, former South Korean President Roh Tae Woo managed a merger of three parties into the Democratic Liberal Party, thereby consolidating a support base analogous to that of Japan, while simultaneously isolating the remaining opposition. This too was consciously modeled on Japan's LDP. Two of the former opposition parties had shortly before been vowing unalterable opposition to the Roh regime; after the merger they were supporters.

These regimes were also been strongly restrictive of organized labor unions, pursued export-led growth policies, and provided privileged political positions for business federations and individual business conglomerates and oligopolies, while at the same time, retaining a strong role in economic policy for state bureaucrats.<sup>52</sup> Korean capital and the Korean economic bureaucracy both gravitated toward corporatist arrangements, particularly since 1987. Furthermore, as Burmeister describes agricultural corporatist arrangements in Korea, it is clear that these closely parallel the experiences of Japan's *Nōkyō*.

Finally, by way of example, Thailand has begun to institutionalize a wide range of corporatist practices including the creation of a series of peak business associations modeled on Japan's *Keidanren*, and then subsequently, the 1981 establishment of the Joint Public and Private Consultative Committee (JPPCC) as a way to provide business with an increasing and more effective role in working with the national bureaucracy in the formulation of the country's economic policy. Labor, meanwhile, has been systematically subjected to state repression even to the point of being essentially illegal from 1958 to 1971. More recently, in 1975, unions were given a more formal bargaining role along with business in the Department of Labor's Labor Relations Committee.<sup>53</sup>

These are of course only suggestive illustrations. But they are sufficiently congruent with certain corporatist traits to suggest that Japan's particular version, of corporatism has its appeals in Asia, particularly as a set of institutional arrangements by which to advance an agenda of economic catch-up. For Asian leaders, what seems most appealing about the Japanese experience was its capacity to deal with internal social dissent, most particularly the perceived political and economic threat from organized labor; the clear economic role given to Japan's strong state bureaucracy in economic policy formation; the role of the single conservative party to deal with the 'problems' of electoral democratization; and the Japanese corporatist capacity to hold foreign capital and investors at bay while carrying out a miraculous and comprehensive transformation of the domestic Japanese economy under a mercantilist version of export-led growth. Indeed as societies in Asia move toward greater democratization, their once 'statist' orientations toward corporatism have been pressed to undergo a transition toward increasingly 'societal' patterns. This too is a transition once made by Japan. The Korean case today suggests that it is in the process of making somewhat similar moves, particularly in regard to agriculture and business relations with the state. And as Song has argued, corporatism has dominated the thinking of Korean labor leaders and academics since the political changes of 1987.<sup>54</sup>

Moreover, empirical comparisons suggest that transitions to political democracy might well be facilitated by state corporatist arrangements such as those in Spain and Brazil.<sup>55</sup> Indeed, single peak associations—even when created by the state—have proven much easier to forge into viable democratic pacts than are most other forms of social organization, and in this way, they lay a strong foundation for subsequent societal corporatist arrangements.

Whether potential imitators will be capable of hurdling all the obstacles they now confront and of mustering successes comparable to those of Japan both politically and economically is of course a moot question. Each country has its own internal and external problems; pure imitation of another country is rarely desirable or possible. Moreover, world economic conditions are changing rapidly, and what worked for Japan a few decades back may not work as well for potential imitators in the 1990s. But whether the results are the same or not, what is being imitated, and why, seem quite clear.

This final point bears heavily on the possible links between Japanese patterns of economic development and the financial crises that spread through much of Asia during the 1990s. The crisis was most acute in Japan, as the country's 'economic bubble' burst in the early 1990s, driving down asset prices in stocks and real estate by as much as 60 per cent and generating some \$600 billion in bad debt by the financial sector. Many elements of the Japanese economic collapse can be traced to poor monetary decisions by Japanese officials, as well as overly aggressive and unmonitored lending by Japanese banks and financial institutions. But it is hard to link the problems very directly to the structures of corporatism, except insofar as close government–business–financial ties and an insulation of much of the Japanese economy from international economic pressures were an endemic part of the national system.

The problems of South Korea, Thailand, Indonesia and Malaysia were similarly difficult to link to corporatism. Excessive borrowing, poor banking decisions, current account deficits and misaligned currencies were far more to blame than the internal organization of business and interest groups. Like Japan, however, the political economies in all four enjoyed the close government and business connections that Evans has labeled 'embedded autonomy' resulting in a policy profile that I have called 'embedded mercantilism'.<sup>56</sup>

The sharp downturns of so many Asian economies raise the question as to whether they share collective problems. Undoubtedly, the conditions that favored their rapid growth in the 1970s and 1980s have changed by the late 1990s. The overall economic successes of these countries, largely behind relatively protectionist barriers, make them ever more visible targets for both potential investors from the corporate world, and for free trade



and open investment supporters—whether in the US and Europe or in organizations such as the World Trade Organization, the IMF and OECD. Combined with a reluctance by the United States to remain as open and ready an import market for products from these countries as it was during the Cold War, it is clear that many Asian countries will face serious difficulties in continuing their long-term commitments to high growth through protectionism at home and export-led expansion abroad.

At the same time, for those countries that successfully made their rapid leaps up the international ladder of economic success, it seems clear that variations on Japanese-style corporatism provided an important and positive contribution for a specific period of time. Whether other countries can attempt similar emulation or not is unclear. And whether Japan and those that followed its corporatist lead can continue to achieve economic successes as a result is highly questionable. But it is equally clear that having successfully transformed their economies, all of these countries are far better poised to deal with the new international and domestic conditions of the next century than they would have been had they never made their improvements in the first place.

## Notes

- 1 This is of course the classic argument put forward by Alexander Gerschenkron. See his *Economic Backwardness in Historical Perspective* (Cambridge, MA: Harvard University Press, 1962).
- 2 It is important to recognize that not all nation-states in the so-called Third World have pursued policies designed to improve national economic performance. In many instances, governing elites seem far more intent on utilizing the powers of the state for personal enrichment. This seems among other things to have been a serious contributing factor to the inability of countries like Zaire under Mobutu or the Philippines under Marcos to move forward in industrialization and national economic growth.
- 3 The logic behind this notion of the executive as 'Janus-faced' emerges from Robert D. Putnam, 'Diplomacy and Domestic Politics: The Logic of Two-Level Games,' *International Organization* 42 (Summer, 1988): 427–460. See also George Tsebelis, *Nested Games* (Berkeley, CA: University of California Press, 1990), and Peter B. Evans, Harold K. Jacobson and Robert D. Putnam, eds, *Double-Edged Diplomacy: International Bargaining and Domestic Politics* (Berkeley: University of California Press, 1993).
- 4 See Chantal Mouffe, *Hegemony and Ideology in Gramsci* (London: Routledge & Kegan Paul, 1979), p. 223.
- 5 Jeffrey A. Frieden and David A. Lake, *International Political Economy* Third Edition (New York: St Martin's Press, 1995), p. 417.
- 6 The literature on this contrast is rather extensive. See *inter alia*, David R. Cameron, 'Social Democracy, Corporatism, Labour Quiescence, and the Representation of Economic Interest in Advanced Capitalist Society,' in John

- Goldthorpe ed., *Order and Conflict in Contemporary Capitalism: Studies in the Political Economy of Western European Nations* (Oxford: Oxford University Press, 1984), pp. 143–178. See also Fritz W.Scharpf, *Crisis and Choice in European Social Democracy* (Ithaca: Cornell University Press, 1987); Manfred G.Schmidt, 'Does Corporatism Matter? Economic Crisis, Politics and Rates of Unemployment in Capitalist Democracies in the 1970s,' in Gerhard Lehbruch and Philippe C.Schmitter, *Patterns of Corporatist Intermediation* (Beverly Hills: Sage, 1979), pp. 237–258.
- 7 The literature on East Asian economic growth is overwhelming. Among the more important works see Chalmers Johnson, *MITI and the Japanese Miracle: The Making of Industrial Policy, 1925–75* (Stanford: Stanford University Press, 1982); Richard Samuels, *The Business of the Japanese State: Energy Markets in Comparative and Historical Perspective* (Ithaca: Cornell University Press, 1987) and also 'Rich Nation, Strong Army': *National Security and the Technological Transformation of Japan* (Ithaca: Cornell University Press, 1994); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990); Stephan Haggard, *Pathways from the Periphery* (Ithaca: Cornell University Press, 1990). For a review of much of the literature on Asian development, see T.J.Pempel, 'Of Dragons and Development,' *Journal of Public Policy* 12, 1 (1993): 79–95.
  - 8 It is this that Peter J.Katzenstein has in mind in his articulation of the importance for corporatism of 'an ideology of social partnership.' *Small States in World Markets: Industrial Policy in Europe* (Ithaca: Cornell University Press, 1985), p. 32. It is what state corporatist ideologies advanced in their various ideologies of national cohesiveness.
  - 9 Gerschenkron, *Economic Backwardness*; Peter J.Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1977); James R.Kurth, 'The Political Consequences of the Product Cycle: Industrial History and Political Outcomes,' *International Organization* 33, 1 (1979): 1–34; Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrialized Countries* (Ithaca: Cornell University Press, 1990), *inter alia*.
  - 10 James Kurth, 'The Political Consequences of the Product Cycle: Industrial History and Political Outcomes,' *International Organization*, 33, 1 (1979): 1–34.
  - 11 Peter J.Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca: Cornell University Press, 1985).
  - 12 Actually, as Philippe Schmitter shows, these two are not actually so closely correlated as was originally assumed. See 'Interest Intermediation and Regime Governability in Contemporary Western Europe and North America,' in Suzanne D.Berger, ed., *Organizing Interests in Western Europe* (Cambridge: Cambridge University Press, 1981), pp. 285–327.
  - 13 Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982).
  - 14 In this sense Katzenstein is very close to Philippe C.Schmitter's focus on organizational characteristics. See 'Still the Century of Corporatism?,' *Review of Politics* 36, 1 (1974): 85–131; reprinted in Schmitter and Gerhard Lehbruch, *Patterns of Corporatist Intermediation* (Beverly Hills: Sage, 1979).
  - 15 *Small States in World Markets* (Ithaca: Cornell University Press, 1985), p. 32 ff.
  - 16 See 'Still the Century of Corporatism?,' *Review of Politics* 36, 1 (1974): 85–131; reprinted in Schmitter and Gerhard Lehbruch, *Patterns of Corporatist Intermediation* (Beverly Hills: Sage, 1979).

- 17 This point was most forcefully advanced by Leo Panitch, *Social Democracy and Industrial Militancy* (Cambridge: Cambridge University Press, 1976). See also Gregory Luebbert, *Liberalism, Fascism, or Social Democracy* (Oxford: Oxford University Press, 1991). See also Katzenstein, *Small States*, Chap. 4. It is also put forward by Cameron, 'Social Democracy, Corporatism, Labour Quiescence...' and Manfred G.Schmidt, 'The Welfare State and the Economy in Periods of Economic Crisis: A Comparative Study of Twenty-three OECD Nations,' *European Journal of Political Research* 2, 1 (1983): 1-26, *inter alia*.
- 18 Francis G.Castles, *The Working Class and Welfare* (Wellington, George Allen and Unwin: Port Nicholson Press, 1985). See also Walter Korpi, *The Working Class in Welfare Capitalism* (London: Routledge & Kegan Paul, 1980); Michael Shalev, 'The Social Democratic Model and Beyond,' *Comparative Social Research*, 6, (1983): 315-351; John D.Stephens, *The Transition from Capitalism to Socialism* (London: Macmillan, 1979).
- 19 It is worth noting that for Katzenstein at least the strong welfare state is not an automatic concomitant of corporatism. He suggests that two alternative strategies of adjustment are possible, one which focuses primarily on intra-business market adjustments, and with business providing the incentives for labor to make adjustments, and the other which relies far more heavily on welfare state and government-provided benefits.
- 20 See for instance Jonas Pontusson and Peter Swenson, 'Labor Markets, Production Strategies, and Wage Bargaining Institutions: The Swedish Employer Offensive in Comparative Perspective,' *Comparative Political Studies* 29, 2 (Spring, 1996): 223-50.
- 21 Peter Swenson, *Fair Shares: Unions, Pay, and Politics in Sweden and Germany* (Ithaca: Cornell University Press, 1989); Kathleen Thelen, 'Beyond Corporatism: Toward a New Framework for the Study of Labor in Advanced Capitalism,' *Comparative Politics* (October, 1994): 107-124.
- 22 It is worth noting that David Cameron, one of the early 'discoverers' of the economic benefits of corporatism has reexamined some of his earlier premises in a later work. See also Peter Lange, Michael Wallerstein and Miriam Golden, 'The End of Corporatism? Wage Setting in the Nordic and Germanic Countries,' in Sanford Jacoby, ed., *The Workers of Nations: Industrial Relations in a Global Economy* (Oxford: Oxford University Press, 1995).
- 23 Wolfgang Streeck, *Social Institutions and Economic Performance: Studies of Industrial Relations in Advanced Capitalist States* (Beverly Hills: Sage, 1992); David Soskice, 'Reinterpreting Corporatism and Explaining Unemployment: Coordinated and Non-coordinated Market Economies,' in Renato Brunetta and Carlo Dell'Aringa, eds, *Labour Relations and Economic Performance* (London: Macmillan, 1990).
- 24 See T.J.Pempel, 'Dominance Denied: The End of One-Party Rule in Japan and Sweden,' paper presented to the American Political Science Association, September 1994. See also Jonas Pontusson and Peter Swenson, 'Labor Markets, Production Strategies, and Wage Bargaining Institutions,' *Comparative Political Studies* 29, 2 (1996): 223-250.
- 25 At the same time, some societally corporatist regimes did make efforts to insulate segments of their economy, as did, for example Sweden with banking and the stock market. See T.J.Pempel, 'Japan and Sweden: Polarities of "Responsible Capitalism,"' in Dankwart A.Rustow and Kenneth Paul Erickson, eds,

- Comparative Political Dynamics: Global Research Perspectives* (New York: HarperCollins, 1991), pp. 408–438.
- 26 Gregory M.Luebbert, *Liberalism, Fascism, or Social Democracy* (Oxford: Oxford University Press, 1991).
- 27 Contrast this with World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (Oxford: Oxford University Press, 1993).
- 28 Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990); Andrew Macintyre, ed., *Business and Government in Industrializing Asia* (Ithaca: Cornell University Press, 1994).
- 29 Frederic C.Deyo, *Beneath the Miracle: Labor Subordination in the New Asian Industrialism* (Berkeley: University of California Press, 1989).
- 30 Edward Friedman, ed., *The Politics of Democratization: Generalizing East Asian Experiences* (Boulder: Westview Press, 1994).
- 31 T.J.Pempel and Keiichi Tsunekawa, 'Corporatism Without Labor? The Japanese Anomaly,' in Philippe C.Schmitter and Gerhard Lehbruch, eds, *Trends Toward Corporatist Intermediation* (Beverly Hills: Sage, 1979), pp. 231–270.
- 32 Schmitter, 'Still the Century.'
- 33 Perhaps nowhere is this ideology stronger than in the combined belief in economic nationalism and in what Samuels has labeled 'technonationalism.' See *Rich Nation, Strong Army: National Security and the Technological Transformation of Japan* (Ithaca: Cornell University Press, 1994).
- 34 This point is elaborated at length in T.J.Pempel, 'Democracy in Japan—A Comparative Perspective,' in Craig Garby and Mary Bullock, eds, *Japan—A New Kind of Superpower?* (Baltimore: Johns Hopkins University Press, 1994), pp. 17–34.
- 35 On the keiretsu structures and the larger integration of Japanese business see Michael L.Gerlach, *Alliance Capitalism: The Social Organization of Japanese Business* (Berkeley: University of California Press, 1992).
- 36 Otake points out how some sectors of business in Japan were willing to create quasi-corporatist business-labor associations for bargaining. Hideo Otake, 'The *Zaikai* Under the Occupation: The Formation and Transformation of Managerial Councils,' in Robert E.Ward and Yoshikazu Sakamoto, eds, *Democratizing Japan: The Allied Occupation* (Honolulu: University of Hawaii Press, 1987), pp. 366–391.
- 37 See Ikuo Kume, *Disparaged Success: Labor Politics in Postwar Japan* (Ithaca: Cornell University Press, 1998), Chap. 3.
- 38 Nihon Seisansei Hombu, *Sanka Jidai no Roshi Kankei: Roshi Kankei Seidojittai Chosa Hōkoku* [Industrial Relations in the Age of Participation: A Report on Practices within the Industrial Relations System] (Tokyo: Nihon Seisansei Hombu, 1973), p. 43.
- 39 *Fair Shares*, p. 34 ff.
- 40 Ronald Dore, *British Factory—Japanese Factory: The Origins of National Diversity in Industrial Relations* (Berkeley: University of California Press, 1973), p. 173.
- 41 See Koike Kazuo, *Rodosha no Keiei Sanka* [Workers' Participation in Management] (Tokyo: Nihon Hyoronsha, 1978); *Shokuba no Rodo Kamiai no Sanka* [Labor Union Participation at the Factory Level] (Tokyo: Toyo Keizai Shimbunsha, 1977).
- 42 This is not at all to deny the important counter-trends through the spring offensive, and the radical Marxian ideology that prevailed within the public sector unions at least into the 1980s.

- 43 On Rengo and peak labor associations, see Tsujinaka Yutaka, 'Rodokai no Saihen to Hachijurokunen Taisei no Imi,' [The Significance of the Reorganization of Labor Relations and the 1986 System] *Leviathan* 1 (1987): 47-72. The agreements among labor, business and government are detailed in Ikuo Kume, 'Changing Relations Among the Government, Labor and Business in Japan after the Oil Crisis,' *International Organization* 42, 4 (Autumn, 1988): 659-687. The voting shifts of labor can be seen in Miyake Ichiro, *Seito Shiji no Bunseki* (Tokyo: Sokubunsha, 1985). The political realignments that followed are discussed in T.J.Pempel, 'Japan's Creative Conservatism: Continuity Under Challenge,' in Francis G.Castles, ed., *The Comparative History of Public Policy* (Cambridge: Polity Press, 1989), pp. 149-181. On the broad history of Japanese labor see Ikuo Kume, *Disparaged Success: Labor Politics in Postwar Japan* (Ithaca, Cornell University Press, 1998).
- 44 The term is that of Richard J.Samuels, *The Business of the Japanese State* (Ithaca: Cornell University Press, 1987).
- 45 See Meredith Woo-Cumings, 'Developmental Bureaucracy in Comparative Perspective: The Evolution of the Korean Civil Service,' pp. 431-458 in Hyung-ki Kim *et al.*, *The Japanese Civil Service and Economic Development: Catalysts of Change* (Oxford: Oxford University Press, 1995). See also Hyung-ki Kim, 'The Japanese Civil Service and Economic Development: Lessons for Policymakers from Other Countries,' in Hyung-ki Kim *et al.*, *The Japanese Civil Service and Economic Development: Catalysts of Change* (Oxford: Oxford University Press, 1995), pp. 506-539.
- 46 This point is made in detail in T.J.Pempel, 'Japanese Foreign Economic Policy: The Domestic Bases for International Behavior,' in Peter J.Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978), pp. 139-190, and 'From Exporter to Investor: Japanese Foreign Economic Policy,' in Gerald L.Curtis, ed., *Japan's Foreign Policy: After the Cold War, Coping With Change* (Armonk: M.E.Sharpe, 1993), pp. 105-136. See also Dennis Encarnation, *Rivals Beyond Trade* (Ithaca: Cornell University Press, 1992); Mark Mason, *American Multinationals and Japan* (Cambridge, MA: Harvard University Press, 1992) *inter alia*.
- 47 DeAnne Julius, *Global Companies and Public Policy* (RIIA/Pinter, nd) as noted in *The Economist* June 23, 1990, p. 67.
- 48 See for example Thelen, 'Beyond Corporatism,' Soskice, 'Reinterpreting Corporatism,' and Lange *et al.* 'The End of Corporatism?'
- 49 'The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences,' *International Organization* 38 (Winter 1984): 1-40.
- 50 Tun-jen Cheng, 'Democratizing the Quasi-Leninist Regime in Taiwan,' *World Politics* 16, 4 (July): p. 495.
- 51 Arendt Lijphart *et al.*, 'The Limited Vote and the Single Nontransferable Vote: Lessons from the Japanese and Spanish Examples,' in Bernard Grofman and Arendt Lijphart, eds, *Electoral Laws and their Political Consequences* (New York: Agathon Press, 1986), pp. 154-169.
- 52 Karl J.Fields, *Enterprise and the State in Korea and Taiwan* (Ithaca: Cornell University Press, 1995).
- 53 Apichai W.Shipper 'Corporatism in Thailand: Business and Labor in Thai Politics,' unpublished ms. 1993. My thanks to Shipper for sharing this manuscript with me.

- 54 Ho-keun Song, 'Wage Policy Precedent and Prospect in Korea: Corporatism and the State Role in Industrial Relations,' paper presented to the Georgetown University Conference on Corporatism and Korean Capitalism, May 1994, p. 2.
- 55 Baohui Zhang, 'Corporatism, Totalitarianism, and Transitions to Democracy,' *Comparative Political Studies* 27, 1 (April 1994): 108–136; Mike Rigby and Teresa Lawlor, 'Spanish Trade Unions 1986–1994; Life After National Agreements,' *Industrial Relations Journal* 25, 4 (1994): 258–271.
- 56 Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995); T.J.Pempel, *Regime Shift: Comparative Dynamics of the Japanese Political Economy* (Ithaca: Cornell University Press, 1998), Chap. 2.

## 4 Benign capitalism—idea and institution

*Dennis L. McNamara*

Howard Wiarda noted that state corporatism helped insure stability and direction during Korea's rapid economic advance in the 1970s, and suggested the possibility of a more societal corporatism in tandem with the erosion of state dominance. Wiarda also raised the interesting issue of corporatist origins in both ideologies and institutions, arguing that in Asia and the West, a corporatist ideology of the eighteenth and nineteenth centuries was used 'to recapture the solidarity and group harmony of the past' and bridge the dislocations of the advent of international capitalism. In the twentieth century, however, institutions rather than ideas have extended the corporatist project as government bureaucracy, private corporations and trade associations critical for economic development and political solidarity have fostered corporatist ideas and strategies. An interplay of idea and institution in the variety of Korean polities over the past century, shaped by domestic and international forces, sheds light on the patterns and origins of corporatist ideology and organization found in different periods of capitalist development on the peninsula.

Phillipe Schmitter cited continuities in the basic motives of capitalism such as the *quest for profit* (or 'maximizing discounted net assets'), *allocation by competition*, *drive toward expansion* and *tendency for accumulation*.<sup>1</sup> Capitalism has its critics. Some Koreans fault capitalism as foreign or alien, selfish and alienating, divisive for the Korean people and oppressive for the poor. A remarkably rapid Korean trajectory from a patrimonial, hermit kingdom to a trading powerhouse permits us to distill the debate over the merits of capitalism into salient themes much less distinct in nations with longer and more complex histories of feudalism and capitalism. Concerns over the divisions and inequalities of capitalism have prompted organized interests in the West such as churches and labor unions and social democratic political parties to press for a more organic, corporatist ideology beyond market to channel the capitalist dynamic and control class chaos. Korea's long

insulation from the West, and its radically compressed development process (which has been further constrained by alien rule, division north and south, hostilities with the north and then the cold war), have not resulted in a comparable institutional development of the interests of labor, churches, or political parties, or similar class mobilization, but the process has certainly not repressed anxieties about unbridled capitalism.

Arguments for the legitimacy or benefits of Korean capitalism have continued now for more than a century among intellectuals and local business leaders on the peninsula. Korean state and capital have joined in promoting an ideology of benefits or 'benign capitalism' to allay fears of individualist excess. The market and private enterprise, they tell us, promote the wider interests of the nation, the strength of the state, and the prosperity of the citizens where market dynamics strike a balance between the public (*kong*) and private (*sa*) interests. An interplay of state (*kwan*) and society (*min*) has been closely linked with ideas of a competitive and ultimately benevolent capitalism. Indeed, advocates point not only to common benefits, but also distinguish the appropriate roles of state and private enterprise in the agrarian economy at the close of the Chosun Dynasty (1876–1910), or in the commercial and industrial economies of colonial (1910–1945) and postcolonial South Korea. I am less interested in proving or disproving the legitimacy of those claims than in their content and origins, and what this might suggest of persistent expectations of capitalism on the peninsula. Strategies of business–state ties evident in these arguments represent a corporate strategy of state direction in the formative years of Korean capitalism, fertile ground for the structures and ideologies of a corporatist form of political economy.

Liberal-pluralist patterns of competing interest groups, *ad hoc* business coalitions and pragmatic, unstructured cooperation between public and private sectors offer one model of business–state ties. In contrast, a corporatist strategy would include normative patterns for the role of the private sector in wider society, and a prominent state bureaucratic role to insure cohesion and maintenance of the patterns. As opposed to utilitarian, pragmatic theories of a fluid relationship between state and private sector, normative or 'organic' would suggest a 'right order,' a necessary design for the political order and organized patterns of reciprocity between state and private sector in economic policy formation and enforcement. Corporatism builds upon an organic view of society as a body or *corpus* in which individuals align with natural groupings such as guilds or labor unions, churches, business or trade, agriculture, etc. An organic premise likewise implies a functional differentiation, participation and a hierarchy of function and authority, as apart from more egalitarian 'one person one vote' representation based on geography.



A distinction between corporatism as a form of interest exchange comparable to pluralism or clientelism, and corporatism as solely a strategy of policy formation and enforcement helps clarify the extensive literature on the topic.<sup>2</sup> The more limited latter definition permits a more focused analysis, but also deflects attention from more substantive issues of how interest contention is channeled. Evidence of a corporatist pattern of contention and compromise in Korean ideologies of capitalism, interest contention and compromise provide our subject, and ties between state and capital our focus. Earlier theories of corporatism as a comprehensive economic system driven by an activist state and the organized interests of civil society have faded recently in favor of more limited and better defined concepts such as ‘sectoral corporatism,’ or a blend of corporatist and clientelist systems, or of corporatist variants of pluralist systems. Whatever the merits of his comprehensive system, J.T. Winkler did specify corporatist principles of unity or cooperation, order over anarchy, nationalism or collectivism, and success or the efficacy of collective goals which remain pertinent to corporatist ideologies.<sup>3</sup> Mihail Manoilescu traced the ideological origins to the statism of the ancient Romans and their definition of the common good, and to the organic model of state and society promoted by Thomas Aquinas in the Christian tradition. Harmon Ziegler, and more recently, Howard Wiarda have noted parallels between corporatism and the Confucian emphasis on community, hierarchy, and social order.<sup>4</sup> Ziegler’s contribution was the effort to draw the corporatist mediation of interests into the literature on collective action of Mancur Olson. Despite the significance of encompassing organizations to bridge public and private interests, Ziegler did not find compelling evidence for such groups in Olson’s explanation, but suggested Confucian societies such as Taiwan have a stronger cultural base for such encompassing efforts.

I originally used the term ‘benign capitalism’ to characterize efforts of Korean colonial entrepreneurs to legitimize their native enterprise among the indigenous population, despite their cooperation with unpopular colonial authorities and business ties with Japanese investors on the peninsula.<sup>5</sup> The prominent role of trade associations in developing such ideologies among both colonial and post-colonial business leaders turned my attention to precolonial Japanese chambers of commerce, and to colonial and postcolonial chambers of commerce on the peninsula.<sup>6</sup> Two chapters of a recent book on the colonial grain trade and development of commodity and stock exchanges were devoted to ideologies of state and society.<sup>7</sup> I cited a *kwannin* theme of state and society, or more literally, of ‘officials’ and ‘citizens,’ as one continuity to a business ideology of benign capitalism in three formative periods of Korean capitalism: late kingdom (1876–1910), colony (1910–1945), and early republics in South Korea (1948–1972). Enlightenment intellectuals, and later chambers of commerce, pressed this theme as a model

for business-state ties, equating the current regime with 'state' and *chaegye* or business community with 'society.' In their brief for the legitimacy of controlled market dynamics, advocates pieced together an ideology of benefits where cooperation between state (i.e., regime) and society (i.e., *chaegye*) promoted the common good, whether economic, social or political. Parallels and contrasts across the three periods reflect differences in the organization of state and capital, but more importantly for our purposes, contested definitions of *kwonmin*, public versus private and the commonweal.

Recognizing both structural and cultural roots of corporatism, Wiarda tried to redress the emphasis in much of the corporatist literature on economic motivations to highlight the complementary role of political-cultural traditions, but was careful to distinguish between such traditions and the manifest ideologies and institutions of formal corporatist systems.<sup>8</sup> The effort to tap the deeper historical precedents contributing to contemporary corporatist strategies promises to extend our understanding of formal patterns of corporatist idea and institution which play a role in whatever model of interest exchange takes precedence, whether pluralism, clientelism or corporatism. An organic model of idea and institution in the development of Korea's capitalism provides evidence of a political-cultural tradition conducive to more corporatist styles of interest negotiation. Bruce Cumings initiated scrutiny of corporatist ideologies on the peninsula with a study of the corporate state of North Korea, highlighting family as metaphor and model, the primacy of family or collective or the individual, hierarchy and hostility to liberalism.<sup>9</sup> Carter Eckert documented the social, political and economic nexus between the colonial Korean business elite, particularly the Koch'ang Kim family and the Japanese state, and the organizations and ideas of the postcolonial elite unable to establish hegemony *vis-à-vis* the powerful South Korean state.<sup>10</sup> Still others such as Jones and Sakong, and later Eun Mee Kim, have cited business circles as the 'junior partner' in a symbiotic relationship of commitment and leadership in the formative years of South Korea's economic development.<sup>11</sup> Comparativists have used ties between state and business in South Korea to test theories of embedded autonomy or of a 'Weberian state' role in development.<sup>12</sup> The significance of the Korean experience of business and the state stretches far beyond the peninsula and merits closer scrutiny.

### Late kingdom (1876–1910)

Korea's introduction into an international market system of capitalism can be dated from the Kanghwa Treaty with Japan in 1876 which opened ports of the hermit kingdom to an international exchange of Korean grains for

Japanese manufactures. Michael Mann distinguished between ‘despotic power’ of a state elite which bypasses institutionalized negotiation with groups in civil society and ‘infrastructural power.’<sup>13</sup> The long reign of the Chosun monarchy (1392–1910) aligns more with ‘despotic power,’ particularly regarding the guilds of brokers or peddlers, although the Korean court always ruled in tandem with a powerful aristocratic elite. Nonetheless, there was little need for complex institutional channels of control to embed state authority in civil society given comprehensive rule in a clearly demarcated and relatively small territory, and where the guilds were organized to insure state oversight of the rice economy. But both court and guild faced a new challenge of market control with the advent of foreign trade and traders from 1876, and reverted to earlier forms of monopoly control to insure local sovereignty over the growing volume of rice exports to Japan.

Neither state bureaucracy nor guild organization could command the capital and expertise necessary to reorganize more professionally in a form which might be competitive with Japanese traders.<sup>14</sup> The Kabo Reforms of 1894–1895 permitted local chambers of commerce to exist under the leadership of government or former government officials, allowing little distinction between state and private enterprise. Many smaller merchants rushed into the domestic supply side of the fast-developing international market for Korean grains, playing a part in the revolution in organization and enterprise at Inch’on and other gateways. But a gap between organization and idea quickly became apparent as the poorly educated brokers, preoccupied with the struggle to survive and adapt their shops, had to cede the cultural adaptation of ideas and attitudes to intellectuals and political activists such as Yu Kil-chun, or Yun Ch’i-ho and So Chae-p’il and their newspaper, the *Independent*. Advocating a revolutionary concept of state and society termed *kwanmin*, and pressing the wider program of enlightenment (*kaehwa*), these early advocates of capitalist benefits promoted open trade and private enterprise, and lauded the market contribution to the commonweal under the banner of benign capitalism.

Enlightenment activists campaigned for a democratic principle of *kwanmin* (officials and citizens), as opposed to the earlier *kunsin* (monarch and minister) ideal. Among specific reforms they called for a public sphere of ‘citizens’ to participate in a national dialogue on Korea’s future, and themselves worked to shape public opinion in their writings and newspapers. In a critical step towards democracy, Yu Kil-chun was among the first to promote enlightenment across society, rather than as the aspiration of any single leadership group: ‘a nation is enlightened if there are many enlightened people among its citizens.’<sup>15</sup> Delimiting the state role to domestic order, international security, and welfare programs, Yu hoped to stimulate individual initiative and responsibility.<sup>16</sup> Carefully distinguishing between

the 'government' and the 'people,'<sup>17</sup> he envisioned a supportive rather than dominant role for the state, such as transportation and stable financial networks, and a legal structure for the pursuit of private enterprise.<sup>18</sup> Yu's Enlightenment Movement successors such as Yun Chi-ho and So Chae-p'il gave closer attention to issues of state and society, but Yu had laid the foundation for the new model of polity and society radically different from the earlier model of monarch and minister.

Despite their priority of a constitutional monarchy with popular participation, So and Yun avoided direct attacks on the familiar pattern of absolute monarch and faithful ministers and showed deep respect for the Korean monarchy. Yet they viewed their literati opponents with disdain, as evident in Yun Ch'i-ho's biting criticism of the Righteous Armies: 'Loyalty does not mean to flatter our superiors or to memorialize the Throne or to kill those who committed crimes years ago.'<sup>19</sup> Respect for the monarch did not dampen their trenchant criticism of the government's administration, nor their constant reminders about the responsibilities of the people. Most importantly, they promoted a critical shift from filial subject to active citizen evident in their program for the people: (a) 'love the emperor and help him acquire the highest position in the world; (b) give him comfort; (c) help him eliminate the difficulties which may shake the foundations of the country; (d) promote a better understanding between the people and the emperor.'<sup>20</sup>

Under the leadership of Yu and So, the *Independent* advocated a new model of citizenship and individual rights.<sup>21</sup> State oppression had dulled all sensitivity to individual rights: 'The first indication of progress in a nation is the knowledge of asserting individual rights. The Korean people have been, for centuries, living under the heavy yoke of oppression from their own officials, so that they have practically forgotten the words "personal rights."<sup>22</sup> Equally critical of both state and society, the editors singled out the apathy of the population, estimating that '80 per cent of Koreans are indifferent to affairs of government,'<sup>23</sup> and pleading for 'a greater sense of equality and birth-rights as citizens of the commonwealth.'<sup>24</sup> Advocacy led to action in the 'Assembly of Officials and the People' under Independence Club leadership in late October of 1898, a very significant moment in the early formation of a modern civil society on the peninsula.<sup>25</sup> Yun Ch'i-ho himself presided over the gathering of private associations and government officials, which resulted in a joint resolution for a representative council quickly accepted by Kojong. The fact that the 'Privy Council' idea never went much further concerns us less than the public effort for recognition of the legitimacy of interest groups and their place in the direction of society.

This initial brief for state and society in the early international market capitalism of the peninsula imposed few boundaries on state but multiple constraints on market. They clearly rejected an earlier Confucian organicism

which would constrain market dynamics in favor of moral controls, but also proved unwilling to embrace a liberal ideology of state simply as broker among competing individual interests. Yu Kil-chun, for instance, proposed a blend of normative constraints and individual freedoms in his definition of a state role in the economy where the state (*kugga*) must implement laws to protect private property and establish conditions for commerce such as a system of exchange, transportation and public utilities.<sup>26</sup> The *Independent* also emphasized a state mandate to protect ‘law and liberty,’<sup>27</sup> but it was Yu Kil-chun himself who insisted that the state must protect the common good by ‘restraining individuals from unbounded pursuit of their own interest (*chagi ilsin*),’ and ‘restrain private profit if it threatens the public good.’ The end here was the nation-state, not the individual.<sup>28</sup>

Social constraints likewise bounded the definition of ‘private.’ Yu linked the freedom (*chayu*) with moral principle (*t’ong’ui*) regarding private property, the former the right, the latter the social responsibility implied in property ownership.<sup>29</sup> The moral dimension of private property included not only concern for public good, but even the Confucian emphasis on frugality and avoidance of luxury.<sup>30</sup> Yu carefully delineated the limits of private property. ‘If freedom of possessions means using and ordering private property in an upright manner, then there will be no interfering or prohibiting private property, and one can act with discretion according to one’s own convenience.’<sup>31</sup> This may not be a ringing endorsement for a liberal view of inalienable individual rights, but given the political and economic context of Korea at the turn of the century, it was a strong affirmation of the legitimacy of a market dynamic. Yu Kil-chun insisted on the principle of competition and decried monopoly in Korean commerce.<sup>32</sup> Editors of the *Independent* later lauded the principle of competition and fiercely opposed monopolies such as Cho Pyong-sik’s Central Chamber of Commerce, the Cattle Insurance Company or the Peddlers’ Guild.<sup>33</sup>

Enlightenment leaders lauded national rather than individual benefits of the market dynamic as they tried to find a middle road between liberal ideas of market sovereignty and a Korean tradition of communitarian values, yet both Yu and So looked to the market and international trade as the sole means for national survival and prosperity. The *Independent* argued forcefully for open trade:<sup>34</sup>

Our only hope, our only salvation is not in seclusion—our hermit policy brought us to the verge of extinction—but in freely throwing open our country to all comers. Let us encourage the inflow of foreign capital and aid foreign enterprise for the development of our latent resources, for the greater and more numerous interests involved, the more sure and enduring will be our standing as an independent state.

Yu Kil-chun had written earlier of commerce as a ‘great service (*taechong*)’ for the nation.<sup>35</sup> Passing quickly over issues of consumer benefit and individual profit, he asserted the direct benefit of commerce arose from matching consumer with producer, and in the exchange, ‘it was only just that they (i.e., the brokers) gain a profit through a charge for their services.’ Yet Yu lavished attention on the public benefits, for commerce led to national prosperity and strength (*bugang*), a familiar theme of the early enlightenment effort, and later, of the patriotic enlightenment movements. International trade held the promise of such benefits, and served as ‘the great way among the nations.’<sup>36</sup>

Themes of a benign capitalism as a corporate ideology are evident already in the late nineteenth century. State rather than the individual remained the focus of both Yu Kil-chun and So Chae-p’il, and of other intellectuals in the region of Northeast Asia. Benjamin Schwartz cited a priority on the power and wealth of the state rather than of the individual in the writings of Yen Fu, a Chinese contemporary of Yu and So.<sup>37</sup> In the same vein Vipin Chandra wrote of a ‘statist’ conception of a new political order evident in the *Independent*: ‘popular rights and popular participation in government would lead to solidarity between government and people and thus strengthen the state.’<sup>38</sup> I find a similar emphasis in their distinction between private and public in the economic order where the purpose of capitalist endeavor was national prosperity or the common good, rather than individual benefit. Neither Yu nor the editors of the *Independent* could align themselves with the nationalist but often isolationist economic policies of the monarchy. They argued instead that trade and engagement with international markets would benefit the common good. An economic ideal of benign capitalism was harnessed to a political ideal of *kwanmin* critical for a subsequent distinction between nation (*minjok*) as a wider ethnic and historical solidarity, and state (*kugga* or *chongbu*) as a legal and administrative order, evident in colonial Korean writings.

The business ideology culled from these early writers does not suggest a new organic model of state and society, but does clearly indicate a rejection of the normative, hierarchical order of the earlier Chinese cosmology. Korean intellectuals, constrained within by a despotic, fading monarchy, and without by intrusive foreign powers vying for concessions and political influence, had only begun to address the critical question of interest versus interests. Certainly Yu Kil-chun emphasized the social ethical dimension of private property rather than simply individual interest, and insisted on the state’s mandate to protect society from unbounded self-interest. Even in this transition to an indigenized ideology of business-state ties in a market economy, there were signs of a normative pattern of linkages between state and society: private gain and indeed, the individuals themselves, would

find legitimacy only within the community. But if the utilitarian, market-oriented individualism of the West finds no home in the ideas of the early *kwannin* ideology, what can be said of a more formal corporatist model of cooperation between state and society? A transition from organic notions of state and society to more formal ideologies and institutions of corporatism can be gleaned from ties between local capital and the state under Japanese colonial rule.

### **Colony (1910–1945)**

As opposed to despotic power, Mann defined ‘infrastructural power’ as the ‘capacity of the state to actually penetrate civil society, and to implement logistically political decisions throughout the realm.’<sup>39</sup> Huge semi-official institutions such as the Bank of Chosen, the Chosen Industrial Bank, the Oriental Development Company and the Chosen Exchange dominated the economy, controlled the flow of credit and monitored the exchange of commodities. Business associations, particularly the combined Korean and Japanese Chambers of Commerce, represented a further channel of infrastructural power for the colonial state, with the Seoul or ‘Keijo’ Chamber serving as a leading platform for the ideas of Japanese *zaikai* and Korean *chaegye* alike in the colony.<sup>40</sup> Korean merchandising of grains continued in the early colonial years, but a small group of major local capitalists would later develop commercial, financial and industrial enterprise as well under the Japanese. Local capitalists included Wasin Department Store magnate Pak Heung-sik, Min Tae-sik of the Tongil Bank, and Kim Youn-su of Kyungbang.<sup>41</sup> If a normative definition of ties between state and society and patterns of structured reciprocity define a corporatist strategy in the economic order, the colonial administration imposed a well-defined organic-statist strategy in business–state relations.

Local intellectuals and entrepreneurs joined in recognizing a much wider state role in colonial state and society than ever imagined by earlier enlightenment leaders. Both moderate intellectuals and entrepreneurs called for colonial state support of indigenous development efforts, with moderates outlining specific policies in the *Donga Ilbo* to nurture finance and industry.<sup>42</sup> But the most significant definition of state and society in the colonial years came from the influential Keisho. Kada Naoji served as president of the Keisho from 1932 to 1939, an umbrella organization for major Korean and Japanese business interests on the peninsula.<sup>43</sup> Kada suggested an even broader economic role for the state within the Japanese empire in articles for the Keisho’s *Keizai Geppo* where he linked public and private in the theme of *kanmin* (officials and citizens).<sup>44</sup> The joining of private enterprise

with imperial goals of expansion under state direction would bring unity, security and prosperity. The key to effective state direction was the combined power of government and people (*kanminryoku*).<sup>45</sup> He wrote enthusiastically of state support for firms expanding into Manchuria,<sup>46</sup> and held out the prospect that with the combined effort of government and people (*kanmin sodo*), Chosen could become the entrepôt and broker between Japan and Manchuria.<sup>47</sup> The motif of unity between government and people (*kanmin ichi*) became the centerpiece of Kada's argument for expansion of trade in Manchuria.<sup>48</sup> The theme of *kanmin* itself brought the state back to the center of capitalism in Korea to highlight a cooperation between unequals and a close linking of government and citizens. *Kanmin* within the ideology of benign capitalism helps legitimize the role of private enterprise as a representative of the people.

There was little questioning of the rights of private property or enterprise among the moderates, but the whole idea of 'private' was again discussed in terms of the nation. The 'Native Products Campaign' would legitimize Korean enterprise on behalf of strengthening the nation, as advocates fervently promoted private enterprise for national survival.<sup>49</sup> They likewise stressed competition against the Japanese in developing enterprise on the peninsula, and called attention to the inequalities between Korean and Japanese investors. Basic issues of competition and inequality in a capitalist society were subsumed under larger issues of national survival. Local capitalists such as Pak, Kim and Min aligned themselves with the themes of the moderate nationalists such as private enterprise for national survival, and prided themselves as Korean survivors in the competition with the Japanese, but also competed fiercely with their compatriots in banking, merchandising and agriculture. Pak Heung-sik published his own appraisal of a bitter struggle to buy out a rival, locally owned department store:<sup>50</sup>

This is to announce that we have taken over 'Donga Department Store' in its entirety.... In order to fulfill our mission as proprietors of a department store suitable to the new age and aware of our important social responsibilities, we completely reformed management and developed a policy for offering high quality merchandise at better prices.

An ideology of competitive, but ultimately benign capitalism served to legitimize competition with fellow Koreans as well as with the Japanese.

Early enlightenment activists had written enthusiastically of private property, but what of individualism and individual rights underlying the very idea of property rights? Compounding the debate over interest and interests was the further tension between local and colonial benefit. Tensions began to surface between not only the individualism of the West



and definitions of the private sector, but also between metropole and colony. A 1924 article titled, 'The Meaning of the term "Korean,"' addressed the difficulty of defining a 'private' sector in a nation without political freedom.<sup>51</sup> The author began with a contrast between the individualism of British or American capitalism, and the communitarian emphases in socialist Russia. Unbounded freedoms evident in the unlimited pursuit of private gain in the West and Korea were singled out as malign, and led to the sad conclusion that Koreans had imported a sense of individual profit without a sense of the individual. A premise is now suggested that an indigenized individualism, or at least a Korean version of capitalism, would strike a better balance of interest and interests than was common in the dominant Anglo-American model. Such reflections sharply exposed the inadequacy of Western market arguments for individual gain in Korean society, but did not firmly establish the place of private enterprise within a corporatist strategy.

The distinction between nation and state recurred in discussion of capitalist benefits. Local industrialists, moderate intellectuals and the Keisho all offered arguments for the wider benefits of capitalism in the colonial years. Min, Pak and Kim wrote of benefits for the consumer, and for the growth of local enterprise. For instance, Pak Heung-sik spoke proudly of his chain stores project in patriotic terms:<sup>52</sup>

Korean commerce is not yet developed. The system of distribution is obsolete, barely surviving with primitive methods. Business has declined and the consumers are greatly inconvenienced.... The chain stores will serve as a major economic network for Korea, a means of achieving domestic development, and a base for training merchants. They will play an important role in developing the Korean economy.

Moderate intellectuals in the Korean community linked capitalism with the struggle for ethnic and political survival. Meanwhile Kada Naoji lauded the benefits of industrial investment in Manchuria and trade with occupied China and Manchuria for both enterprise and empire. The discrepancy in definitions of 'public' or 'community' reveal seams in colonial business ideology along national lines between locals and the Keisho leadership.

While only a few Korean enterprises organized and expanded through 1945 on the peninsula, Japanese firms in Korea flourished. Economic disparities between local and alien enterprise, the opportunity for investment abroad and expansion on the peninsula gave rise to capitalist ideologies. Proponents of a benign capitalism in the colonial years gave greater emphasis to the state role than their enlightenment predecessors. While moderate Korean nationalists tried to keep their eyes and aspirations

fixed on a Korean 'nation' (*minjok*), Keisho leaders looked fondly back to the Japanese home islands. The distinction between the home islands or 'inner country' (*naichi*), and the colonies or 'periphery' (*gaichi*) persisted as a theme of business ideology among the Japanese in both metropole and colony.<sup>53</sup> Meanwhile local industrialists came to rely on the colonial administration for help in building local enterprise without denying nationalist aspirations. In any case, there was little concern for the individual as such, and little thought of independent interest group development. The state organized, chartered and closely supervised umbrella business organizations. Informed rather than consulted on policy matters, the Keisho played some role in colonial development plans in gathering information and promotion of private investment. Issues of reciprocity between state and private enterprise gained more attention, though authoritarian corporatist controls in the later years of colonial rule discouraged a cohesive business voice apart from the state.

Extensive state direction and intervention in a market economy reinforced the statist character of business-state relations. The theme of *kanmin* signaled a new organic model of the state and people, stressing unity and subsidiarity where both state and society played distinctive roles. In the colonial economy, the state led and private enterprise followed. Apart from discrepant definitions of state between Korean and Japanese, the effective pattern of business-state ties on the peninsula through 1945 coincided with this organic-statist model. Yet the colonial experience of this model left unresolved two nagging questions for subsequent ideologies of indigenous capitalism: the legitimacy of the state, and the content of the cooperation under the colonial administration. There were also questions of private enterprise as a legitimate representative of the interests of the wider population. Successful Korean entrepreneurs aligned their investments with state goals as they came to define private enterprise in narrow terms of ownership and internal control rather than in wider terms of establishing directions for a local economy. Apart from issues of state and society, two familiar themes returned in the colonial ideology of a benign capitalism: competition and benefit. Korean enterprise now faced competition locally among both Korean and Japanese competitors, and competition with Japanese firms in Manchuria. Japanese and local advocates of capitalism and the common good stressed benefits for the larger body, whether nation or empire, and for the prosperity of the people's lives.

The critical issue for the growth of large-scale local capital through 1945 was access to state economic support and a niche within the state's economic priorities for the peninsula. A few colonial Korean entrepreneurs found ways to align their interests with colonial or 'imperial' goals while maintaining local ownership and direction of their enterprise. Their business

ideology reflected the ambiguity of their commitment to Korean nation and/or colonial state. On the other hand, colonial state control of finance, transport and foreign trade on the peninsula permitted little independence for 'private' enterprise. Discrepant definitions of both public and private, and the uneasy experience of an organic-statist strategy in colonial business-state ties left local entrepreneurs with divided loyalties and ideologies. What would persist from the colonial years, however, was a precedent of strong state control and economic leadership which Woo distinguished as 'a combination of corporatism cum authoritarianism.' The author cited continuity with the Fourth Republic of Yusin regime of Park Chunghee in the 1970s, including state corporatism, and similar pressures for rapid industrialization and sovereign security.<sup>54</sup>

### **Early republics (1948–1972)**

Liberation from Japanese colonial rule in 1945 opened a turbulent era which included in quick succession, division from the north and then war (1950–1953), reconstruction in the First Republic through 1960, and then stabilization and economic growth in the Third Republic through 1972. The bureaucratization of the state and its supervision of the market economy continued, with the strong state of the Third Republic under President Park Chunghee reestablishing infrastructural networks of control reminiscent of controls on finance in the colonial economy. The Ministry of Finance, the Ministry of Commerce and Industry, and in the Third Republic, the Economic Planning Board each played a part in coordinating a national development effort and carefully supervising and supporting private enterprise. Professional business associations such as the Korean Chamber of Commerce and Industry (KCCI) and, from 1961, the Federation of Korean Industries (FKI), provided new organizational bases for cooperation between state and business groups.<sup>55</sup>

Bureaucratization of the state and professionalization of business interest associations alone would not resolve confusions in the ideology of a benign capitalism persisting from the colonial experience. Independence, for instance, did not immediately resolve the discrepancy between 'nation' and 'state' where a capitalist state in the South struggled for legitimacy on a peninsula divided into socialist and capitalist regimes. Nor did independence unleash market forces and open competition in a private sector previously constrained by the colonial state. The private sector now came to be dominated by the family-owned conglomerates (*chaebol*), built through close, often collusive ties with the government and monopolistic control of domestic markets. Geo-political tensions on the peninsula and the unbalanced

development of the huge conglomerates again challenged definitions of 'public' and 'private' basic to a market society. In the ravages of war, hardship of reconstruction, and sacrifices of export-oriented expansion, there were few tangible benefits to capitalism. The challenges faced in the First (1948–1960) and Third Republics (1963–1972) demanded new definitions of public and private, and of common benefit. A review of KCCI policy recommendations (*konu*), and of FKI resolutions (*kyolui*) and recommendations (*sonon*) indicates a return to familiar themes in the ideology of benign capitalism.

The earlier model of government and people (*kwanmin*) continued in the recommendations of the Chamber of Commerce and Industry, though now with greater emphasis on participation of private enterprise in government policy formation.<sup>56</sup> Founded only in 1961 to represent the major Korean firms, the Federation of Korean Industries recalled the theme in the difficult early days of Colonel Park's coup and initial prosecution of business leaders. Here the focus was 'nation' and 'citizens' (*kungmin*), with the FKI representing the voice of the people.<sup>57</sup> Neither Chamber nor Federation protested state direction, but pleaded rather for efficient direction and lavish support. Economic stability, support for private enterprise, and calls for 'rational, comprehensive' state direction dominated the business ideology of the early republics.<sup>58</sup> Rational, structured reciprocity between business association and state bureaucracy permitted state supervision, on the one hand, and some advisory role for business in state economic policy, on the other. But clearly the state was the senior partner. A feature editorial in the Chamber's *Sanop Kyongje* in June of 1949 gave notice of a prominent state role. 'Planned capitalism' under state leadership would serve as a preliminary step towards an autonomous economy, but only with government planning supporting rather than controlling private enterprise. Local state recognition of a 'private' or autonomous sector within a war or reconstruction economy proved difficult, but nonetheless necessary, if for no other reason than to establish a democratic alternative on the peninsula and placate Western aid donors.

But the restive private sector grew impatient with government planning. KCCI President Chon Yong-sun signaled a more adversarial role for private enterprise in the same journal a year later with criticism of government spending and low levels of foreign aid. The Rhee government pressured the Chamber to remove Chon two years later, but the more critical stance would continue in both Chamber and Federation. For example, the Chamber in the First Republic often faulted the state for weak support of the private sector (*mingan chabon*), and urged the government to stimulate private investment by engendering confidence in the economy.<sup>59</sup> Stabilization and liberalization of controls on finance and access to foreign capital would

encourage local investment.<sup>60</sup> A theme of rationality gained new prominence in business association critique of government policy as the Chamber urged more rational government planning.<sup>61</sup> The FKI echoed the theme with their own call for a larger role of private enterprise in government economic policy since ‘rational’ planning, they argued, must include the ideas of business leaders.<sup>62</sup> Already by the end of the Third Republic we find calls for liberalization of government financial controls and especially of government ownership of banks.<sup>63</sup>

Both Chamber and Federation reiterated earlier themes of benefit such as national autonomy and prosperity. The Chamber held out the hope of Korean economic independence from the stronger nations,<sup>64</sup> and Korean integrity and strength as a capitalist ally.<sup>65</sup> The Federation of Korean Industries continued themes of both independence and national security.<sup>66</sup> A second benefit theme of prosperity for the wider society also continued through both Republics. The Chamber insisted capitalist development would improve the lives of the ‘people’ (*kungmin taechung saenghwal*)<sup>67</sup> and the Federation argued that capitalism would bring stability to the people’s lives.<sup>68</sup>

The benign capitalism of the early Republics recalls earlier themes of wider benefit within a normative national order distinguished by the term *kwanmin*, with state as senior partner in economy and polity, and state-defined societal goals rather than individual benefit the central priority. A struggle for political legitimacy between socialist and capitalist regimes on the peninsula only redoubled state efforts in the Third Republic (1963–1972) to establish economic stability and security through state economic direction. Growth in the private sector among the larger firms did not lead to independence from state direction, but only closer cooperation in joint planning dominated by state-defined national goals. Business associations called for liberalization of state controls in some areas by the late 1960s, but generally appeared more interested in rational, efficient controls, and of course, continued state support.

Themes of cooperation between state and private enterprise recurred as a normative pattern, each contributing to national goals such as security and independence. Advocates promoting an enhanced role for ‘private capital’ (*mingan chabon*) studiously avoided the contentious issue of private profit. Business interest associations purported to represent not so much a private sector versus the government, but rather a core element of the ‘people’ (*kungmin*) interested mainly in the good of the whole. In contrast to the ideology of the colonial years, both state and the private sector enjoyed greater legitimacy in this model of local business-state ties. Themes of competition and benefit recurred as well in the post-colonial ideology of benign capitalism, with competition among smaller and larger enterprise

locally, and especially competition with US and Japanese investment now drawing greater attention. Advocates cited benefits of national autonomy and independence from foreign political and economic domination, as well as the prosperity of the local population.

## Conclusion

A rationale for a competitive and benign capitalism was linked with an organic-statist strategy of business–state ties in the formative century of Korean capitalism. The state remained at the center of the market economy from the turn of the century, despite problems of legitimacy and representation, but the *kwanmin* model signaled the advent of a new organic model closely linking state and business in a hierarchy of purpose and benefit, despite initial rejection of an earlier Confucian organicism. A close interplay of big business and the state in the First and Third Republics redefined the model under indigenous state direction, reasserting the primacy of the state in economic direction, but also establishing precedents for interdependence among firm, business interest association and state bureaucracy that would refine patterns of reciprocity in later republics. Post-colonial arguments for benign capitalism suggest an ideology supportive of an authoritarian, corporate strategy of business-state ties, and a counterpoint to arguments for a liberal-pluralist model of business-state ties on the peninsula.

A century of business ideology reveals inconsistencies in definitions of state, private profit and common benefit, and more importantly, shifting boundaries between state and society. One cannot ignore the persistence of the theme of state and society within a benign capitalism, despite geopolitical turbulence compounding problems of establishing an autonomous ‘private’ sector within kingdom, colony and early republics. Weak institutionalization of law and contract evident in the succession of national constitutions, in the ‘special favors (*t’ukhae*)’ accorded the early *chaebol*, or in the ‘discretionary incentives’ of the Third Republic reflect the shifting institutional framework blurring distinctions between state and private sector. Eckert’s description of *chaegy* leaders in South Korea as a ‘class without hegemony,’ in part because of their dependence on the state,<sup>69</sup> or Kim’s depiction of capital as junior partner in a ‘symbiotic relationship’ with the state raises issues of independence and autonomous action.<sup>70</sup> Variations on the motif of *kwanmin* in ideologies of benign capitalism through 1972 accurately reflect the weak structural distinctions eroding cohesion among business elites and the lack of mutual autonomy between state and capital.

Citing parallels between Egypt and South Korea, Robert Bianchi has offered the thesis of ‘unruly corporatism:’ ‘a persistently heterogeneous system of interest representation in which both pluralist and corporatist structures have played enduring roles, but in which neither mode of representation has attained anything approaching universal or permanent hegemony.’<sup>71</sup> The review of benign capitalism offers evidence of the bases for an ideology of corporatism in ties between major private firms and the Korean state, but always in contention with other competing ideologies. Closer study of clientelism and pluralism in ties between state and capital will permit the kinds of contrasts and comparisons necessary for a fuller understanding of corporatist interest mediation on the peninsula. Perhaps the more interesting question remains one of transitions. Pressing the organic model of state and society to more formal patterns of institutions and ideas, Wiarda concluded, ‘neocorporatism is the most recent form, growing out of modern economic planning and the welfare state.’<sup>72</sup> South Korea has distinguished its ties between state and capital with close cooperation between the *chaegye* or leading elements of capital and state bureaucracy and politicians. It has likewise distinguished itself with a relatively meager welfare net, the exclusion of labor from formation and enforcement of economic policy priorities and the absence of a labor-oriented political party with significant political representation. Democratization campaigns in the administration of President Y.S.Kim (1992–1997) brought new scrutiny and harsh criticism to the existing framework of close ties between trade association and bureaucracy which permits intermediation of interests between capital and the state. Yet the recent financial crisis from the fall of 1997 termed the IMF Era has again demanded close cooperation and effective intermediation of interests between state and the leading segments of capital. Whether the combination of demands for democratization and rapid adjustment will force a structural interdependence mediated by designated trade associations resulting in a Korean variant of societal corporatism, remains to be seen.

## Notes

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- 16 HHS p. 205; *Soyu kyonmun*, chapt. 8, sect. 205, p. 217.
- 17 HHS, p. 376; *Soyu kyonmun*, chapt. 14. I translate *chongbu* as 'government,' and *paeksong* as 'people.'
- 18 HHS, pp. 121, 362; *Soyu kyonmun*, chapt. 4, sect. 122, p. 133; chapt. 14, sect. 361, p. 100.
- 19 *Independent*, August 26, 1897.
- 20 *Independent*, August 22, 1897.



- 21 The idea of a more egalitarian cooperation between ‘officials and the people’ was explained in a series of editorials of November, 1898, in the vernacular *Tongnip Sinmun*. See editions for November 3, 4, 18, 19, and 20. Advertisements for the Independence Club published in the *Tongnip Sinmun* highlighted the idea of ‘unanimity and joint effort of officials and the people [*kwannin tongsim hamnyok*].’ See editions for December 12, 1898, and December 16, 1898. Editorials in the same newspaper at other times would emphasize a similar distinction between ‘government’ [*chongbu*] and ‘people’ [*paeksong*].
- 22 *Independent*, March 9, 1897.
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- 26 *Soyu Kyonmun*, chapt. 6, p. 131; chapt. 14, p. 104; see also *Independent* of April 18, 1896.
- 27 October 7, 1897.
- 28 *Soyu Kyonmun*, chapt. 4, pp. 129, 144; Young-ho Kim, ‘Yu Kil Chun’s Idea of Enlightenment,’ *Journal of Social Sciences and Humanities* 33 (Dec. 1979): 37–60; Hyung-chang Kim, ‘Yu Kil-chun: A Korean Crusader for Reform,’ *Korea Journal* 12 (Dec. 1972): 36–42.
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- 30 *Soyu Kyonmun*, chapt. 6, p. 174.
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- 33 Regarding competition see *Independent of February* 10, 1898 and April 19, 1898. For articles on Cho’s Chamber, see issues of October 4 and October 20, 1898. The editors wrote of the Cattle Insurance Company on June 28 and July 2, 1898. The Peddlers’ Guild gained their attention on September 25, 1897 and July 5, 1898.
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- 35 *Soyu Kyonmun*, chapt. 14, p. 100.
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- 40 I refer to the Keijo Chamber as the Keisho, an abbreviation drawn from its title in Japanese, Keijo Shogyo Kaigisho [Keijo Chamber of Commerce]. The title was corrected in 1931 to read, ‘Keijo Shogyo Kaigisho [Keijo Chamber of Commerce and Industry]. See McNamara, ‘The Keisho and the Korean Business Elite.’
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- 43 McNamara, 'The Keisho and the Korean Business Elite.'
- 44 Note the shift from Korean (e.g. *kwanmin*) to Japanese (e.g., *kanmin*), with the same Chinese characters given different pronunciations.
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- 46 *Keizai Geppo*, September and December, 1933.
- 47 *Keizai Geppo*, January 1935.
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- 49 Donga Ilbo, May 15, 1921, and May 27, 1923.
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- 55 McNamara, 'State and Concentration in Korea's First Republic;' the Korean Chamber of Commerce and Industry (Taehan Sanggong Hoeuiso) will be cited as KCCI, and the Federation of Korean Industries (Chonguk Kyongjein Yonhaphoe) will be cited as FKI.
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- 65 Resolution dated June 29, 1954, and found in *Sanggong Hoeuiso kusimnyonsa*.
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- 69 Eckert, 'The South Korean Bourgeoisie: A Class in Search of Hegemony.'
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## 5 From affiliation to association

The challenge of democratic consolidation in Korean industrial relations

*Hyug Baeg Im*

Korea has come a long way in the last five decades. Since liberation from colonial rule in 1945, the nation has seen division from 1948, civil war (1950–1953), and the complexities of state building, industrialization and democratization. South Korea compressed the multiple stages of industrialization and democratization into a few turbulent decades of national division, the ruins of the war, the repression of military dictatorship, and the constraints of a massive military standoff between the opposing states on the peninsula. President Y.S.Kim took office in 1992 as the first civilian president in thirty years. Despite reliance on former military elites and conservative privileged classes in the election, President Kim established firm civilian control over the military. He also opposed close political ties to the business community in a strategy defying the predictions of theorists like O'Donnell and Schmitter<sup>1</sup> who count the military and the capitalists as the queen and the king of the democratic chess game. If threatened, the king and queen 'may simply sweep the opponents off the board to kick it over and start playing solitaire.'

O'Donnell and Schmitter warned that civilian democratic government must be careful not to provoke the military and capitalist privilege in a country with a long tradition of military rule and entrenched business interests. Przeworski also suggested that the pro-democratic forces must be prepared to offer concessions in exchange for democracy.<sup>2</sup> But to everybody's surprise, President Kim decided instead to purge most of politicized military officers and establish firm control over the military. Challenging the leading business interests as well, Kim published a presidential decree to enforce the 'real name' financial account system to cut off channels of bribing officials and politicians by businessmen.

Having successfully completed the first stage of democratic transition,

the struggle for Koreans has shifted from a 'war of movement' to dethrone an authoritarian state to a 'war of position' to construct a strong bastion of civil society. Social rather than political change now dominates efforts at democratic reform. Questions such as 'what type of democracy do we want to construct,' or 'how can we organize and institutionalize civil society,' or 'how can we rearrange relations between state and civil society' suggest a second stage of democratization, i.e., democratic consolidation.<sup>3</sup> While the prime concern at the first stage of democratic transition is how to extricate the military from power and install a democratic government through fair elections, the second stage of democratization focuses on the consolidation of a new fragile democracy. The challenge now is to internalize, habituate, and routinize democratic norms and rules of the game. One contribution of democracy is the 'elaborate rules for conflict resolution.'<sup>4</sup> For the consolidation of new democracy, rules for distributing benefits and costs must be agreed upon, legitimized, and internalized among relevant actors in order to institutionalize conflict resolution in a 'new' democracy.

Within the process of social democratization, this chapter will focus on how to institutionalize relations between interest associations of capital and labor, i.e. industrial relations. Although interest associations are not a major factor in determining the modality of transition from authoritarian rule to democracy, they are very significant in determining what type of democracy will eventually be consolidated.<sup>5</sup> Democratization in South Korea forced the state to moderate tight controls over civil society and permit space for interest groups to organize. Businessmen, workers, farmers, urban poor, artists, teachers, journalists, and others formed autonomous interest associations to defend their class, sectoral, professional, or occupational interests. None the less, the proliferation of interest associations was not translated into institutionalized interest politics. Interest associations have not developed institutionalized channels for intermediating differences among them. Korean interest politics is amorphous, centrifugal, hyperbolic and unruly. Democratic consolidation demands new institutions in industrial relations to supersede an amorphous and unruly interest politics.

### **Associative model of social order and industrial relations: profile and promise**

Streek and Schmitter cite three principles of organization for the social order: the community, the market, and the state. Members of a community order interdependently produce 'solidaristic goods' based on shared norms and jointly produced satisfactions. But actors in a market order compete independently to maximize their own utility, interests, and norms.

Conversely in a state order, the actors are dependent on hierarchical coordination by the state which has monopolized the legitimate use of violence within the territorial boundary.<sup>6</sup> One can distinguish the three principles of organization according to their contrasting rationalities of social choice. The calculus rests on 'satisfying identity' in communities, on maximizing advantages in markets, and on minimizing risks and maximizing predictability in states.<sup>7</sup>

No single organizing principle can explain the social order, but their relative significance helps distinguish historical developments of capitalist society. With the advent of capitalist industrial society, we find the decline of community as an organizing principle of social order, and the rise of diverse mixtures of the market and the state ordering society. Nineteenth-century social order was based primarily on what Polanyi termed the 'self-regulating market.' The First World War and the world depression of the 1930s signaled the decline of that self-regulating market order, and the advent of efforts to subordinate market to society with various anti-market alternatives, from the New Deal, to Fascism and Stalinism.<sup>8</sup>

What Polanyi did not foresee was the triumphant return of the market with the failure of anti-market alternatives. Defeat in the Second World War marked the rapid decline of Fascism. Democratization brought a quick end to the so-called 'bureaucratic authoritarian' military regimes in Latin America in the 1970s and 1980s. The ideological experiment of Stalinism or 'actually existing' socialism in the East rapidly came apart between 1989 and 1991, and neo-conservatives pressing for 'free markets' now challenge the Keynesian social democracies of northern Europe as well. Heralding the decline of anti-market alternatives, a neoliberal such as Francis Fukuyama recently declared 'the total exhaustion of viable systematic alternatives to Western liberalism' and the final triumph of market democracy.<sup>9</sup>

Although neoliberals claim final victory over those who might control markets, the unfettered market remains controversial even in the United States, the heartland of liberal democracy. Growing market competition may well undermine democratic participation if it leads to inequality among classes, races, sectors, and regions. One result is the emerging 'underclass' even in the age of global prosperity. For instance, those falling below the poverty line in the US now amount to 18.1 per cent of the population, and over half of single-parent families fall below the poverty line.<sup>10</sup> The growing underclass in the US will decrease productivity and further erode international competitiveness, as well as the material base of American democracy. The evidence does not support the neoliberal tenet that the market generates the optimal allocation of resources, for no such perfectly competitive market exists and even if it did, it would not generate an efficient economy in the presence of public goods, externalities, or increasing returns

to scale, i.e. what we call ‘market failures.’ On the contrary, we live in a world of imperfect markets and imperfect states and must choose between these two imperfect alternatives. But the market cannot remedy state failures, just as the state cannot resolve market failures. If neither state nor market alone can serve as credible systems of social organization, can associations provide a distinctive form of social governance alternative to market and public hierarchies? Hirst cites the basic premise of the associative model: ‘human welfare and liberty are best served when as many of the affairs of society as possible are managed by voluntary and democratically self-governing associations.’<sup>11</sup> Such associations may fill the vacuum left by the collapse of state collectivism, bureaucratic authoritarianism, and the Keynesian welfare state, and moderate a neoliberal individualism plagued by the excesses of unbridled competition and market failures.

‘Organizational concertation,’ i.e. a system of coordination, self-regulation, and self-help among intermediary interest associations, serves as the principle of organization in the associational model. The model draws aspects of the earlier principle of community into the contemporary world where social order might again be organized on the basis of ‘spontaneous solidarity.’ But personal choice cannot be the sole basis of solidarity in a complex industrial society. An associative model attempts rather to ‘organize’ solidarity through the formation of ‘private interest governments’ with a public or quasi-public status devolved, licensed, and assisted by the state. Such semi-official groups allocate goods and services or status that are monopolistic in nature and indispensable for members.<sup>12</sup> Such governments may well affect and control the behavior of their members imposing certain public standards and responsibilities. Democracy based on associative principle can be called ‘organized democracy.’

Tocqueville once called democracy the ‘art of association,’ and the burgeoning of voluntary associations provides a fertile ground for civic virtue in a democracy. Associations promote democracy in various ways.<sup>13</sup> First, associations can provide more information to the population as well as to policy-makers to foster a more efficient and perfect democracy based on informed participation. Second, associations can moderate divisive territorial politics by complementing functional representation. Political parties provide territorial representation, and interest associations functional representation. Functional representation enhances the capacity of the territorial government to improve economic competitiveness or provide welfare despite market interpenetration across borders. Third, participation in associations can help citizens develop competence, self-confidence, and civic consciousness.

The associative model stands apart from both the statist macro-corporatism of the Keynesian welfare state, and from the micro-corporatism

of Japanese enterprise paternalism. Macro-corporatist strategies of industrial relations prominent in Sweden, Germany, and Austria maintain a 'tripartite' national-level bargaining among representatives of business, labor and the state. But critics charge that macro-corporatist strategies lack the flexibility necessary to meet the demands of a rapidly changing global economy. Cross-border ties transcend the capital and labor markets of a single nation and render compromises meaningless among peak organizations of capital and labor within any one nation. The globalization of the economy also erodes the ability of the national state to manage the economy within its own territorial boundaries as the state can no longer protect tripartite agreements by insulating capital and labor from foreign competitors. Organized labor likewise faces a new situation. The massive inflow of foreign workers breaks the labor supply monopoly of the national union federation, eroding the basis for solidaristic wage bargaining. With increased international capital mobility, employers have less reason to make the compromises demanded in tripartite bargaining with organized labor. Instead, employers force workers to hold down wages with the threat of closing plants and moving production offshore.<sup>14</sup> As post-Fordist flexible production systems replace conventional mass production systems, employers have little to gain from the standardized national wage contract. Such asymmetrical power relations between capital and labor threaten the social democratic class compromise.

Globalization has likewise undermined the effectiveness of micro-corporatist strategies in Japanese industrial relations based on patron-client relations between employers and workers. Workers pledge loyalty to the company in exchange for a paternalistic system of company welfarism at the workplace. Such paternalism had insured peace at the workplace and consistent improvements in worker productivity. Recently, however, key features of Japanese industrial relations such as permanent employment, pay and promotion according to seniority, and enterprise rather than craft unionism have come to be regarded as obstacles to international competitiveness.

Falling between Japanese micro-corporatism and the macro-corporatism of northern Europe, meso-corporatism or sectoral corporatism appears more viable in the associative model of industrial relations.<sup>15</sup> Meso-corporatism is a system of interest representation, decision-making, and policy implementation which covers a more restricted range of issues than macro-corporatism.<sup>16</sup> In meso-corporatism, the arrangements on training, technology diffusion, and flexible manufacturing networks can be negotiated on regional, sectoral, or occupational basis. Sectoral corporatism refers to 'policy formation and implementation which are negotiated within a single sector.'<sup>17</sup> Organizational concertation takes place among sectoral,



occupational, professional, and industrial groups. One can find examples of meso-corporatism in Italy's Emilia-Romagna, Sweden's Smaland, Germany's Baden-Württemberg, and Denmark's Jutland peninsula, all among the most competitive production sites in the world. In place of industry-wide, standardized wage negotiations, a sectoral corporatist strategy would pursue wage and working contract negotiations according to relatively homogenous sectoral or occupational levels in efforts to institutionalize effective concertation between organized labor and capital.

Meso or sectoral corporatism has several virtues. First, it enables firms and unions to escape from the rigidities of macro-corporatism and respond more easily to the pressures of global competition and the spread of flexible specialization.<sup>18</sup> Second, it can be a mechanism for more popular input in the hierarchical structure of the state and economy.<sup>19</sup> The 'bottom-up' meso-corporatist linkage provides citizens with greater control of their affairs in the economy and in welfare systems, which is not possible in 'top-down,' hierarchical, centralized, and bureaucratic macro-corporatism.<sup>20</sup> Finally, it counterbalances the concentration of power in the sovereign state, the larger corporations, and mass unions, and moderates the anarchy and inequality of the market.

### **Interests without institutions: Korean industrial relations, past and present**

Under the authoritarian rule of President Chun (1980–1988), the statism which dominated industrial politics was closely linked to the market with the state as gatekeeper of the market order. I have earlier written of Korean authoritarianism in the 1980s as 'market authoritarianism' in which 'the market was opened but politics were closed.'<sup>21</sup> In industrial relations, the authoritarian government under President Chun relied on a market mechanism of labor repression. Samuel Valenzuela has cited two types of labor control by an authoritarian state. In the 'corporatist containment' strategy, the state organizes workers from above and controls them with state officials and state-appointed union leaders. In the 'market containment' strategy, the job of the state is to deprive organized labor of their market advantage. Thus the state endeavors to weaken existing unions, to decentralize collective bargaining, and to deprive workers of their right to strike. To achieve such goals, the state permits union busting, outlaws work stoppages in 'strategic' industries, and prevents the use of union funds for strike supports, etc.<sup>22</sup>

In line with the latter strategy, the Chun government discouraged union organization, destroyed existing unions which did not follow government policy, legally enforced decentralized company unionism, prohibited political

participation of workers as a class, and blocked workers' efforts to form solidarity with third parties outside industry such as students, dissident intellectuals, and opposition political parties. Workers were not allowed to pursue collective interests through organizing solidarity among themselves, but instead were urged to compete with each other in the labor market place. They had only the right to withdraw from labor market as isolated, atomized workers. Unlike Latin American authoritarianism, the Korean state demobilized and depoliticized workers through market isolation. However, the market authoritarian state undermined itself by disorganizing opponents rather than co-opting organized segments of civil society. The dynamics of democratization in South Korea were spurred in part by the inherent nature of market authoritarianism. A market-conforming authoritarian state, in general, tries to demobilize and to depoliticize civil society as the state urges organized groups in civil society to compete against each other in a decentralized market. Reliant on the market mechanism, however, the state suffers a diminishing capacity to build an organized base of domestic support in the face of market failures and the growing complexity of globalization. When popular sectors erupt against the authoritarian state, the state has no friends among organized social forces. Without a wider base of support, the state becomes vulnerable to economic fluctuation and political turmoil.<sup>23</sup>

Chun's market-conforming policies disintegrated state-society networks or a 'developmental coalition.' For instance, Chun's stabilization measures deprived big business of rents formerly furnished by the state in the form of subsidies and protections from foreign competitors. In its drive to liberate market dynamics, the state deprived itself of market controls important for attracting big business to an authoritarian coalition. When popular protest arose against the authoritarian state, state elites found that big business was no longer the staunch ally willing to live or die with the authoritarian state. While a symbiotic relationship between big business and the authoritarian state persisted across the two decades of authoritarian rule under President Park (1961–1979), cracks in the so-called 'sword-Won alliance' emerged in the 1980s under President Chun. Neoconservative reforms also alienated farmers. Cuts in subsidy for grain and fertilizer price and import liberalization of farm products turned farmers against the Chun regime.

Chun's market authoritarian state neither fostered its own groups of friends and supporters in the civil society, nor allowed civil society to organize their specific group or sectoral interests. The state tried to defend its autonomy by keeping civil society in an isolated market situation, which in turn only fostered voices of discontent. Karl Polanyi pointed out that unrestrained market movements sparked the counter-movements of market losers in civil society to protect themselves against the destructive forces of

the market. The eruption of anti-state popular movements of workers, farmers, and the urban poor in the mid-1980s coincided with Polanyi's prediction. Although the middle class was the main beneficiary of the neo-conservative reform, Chun gained no support from the middle class. On the contrary, freed from economic anxieties, they no longer tolerated the trade-off between economic development and political freedom. Instead, their participation strengthened the democratizing coalition to the extent of forcing authoritarian power holders to concede to democratic reforms with the June 29 political pact.

In the first direct presidential election, Roh Tae Woo who played a key role in Chun's authoritarian state was elected president late in 1987. The government of Roh from 1988 to 1992 did not try to revise the market-oriented economic model, for unlike democratization movements elsewhere, the impetus for the Korean democratic transition was not the failure of economic policy. Continuity rather than rupture with the past prevailed as the market took a new wife, democracy, and the result was a new type of market democracy. With regard to labor policy, the Roh government loosened the repressive market containment of labor. Workers now won the right of minimum liberal associability. New labor codes assured workers minimum rights to organize unions and to encourage and to engage in strike actions. Nevertheless, the new labor codes were far below the level that the majority of rank-and-file workers demanded. The basic poison pills remained intact such as the clause prohibiting unions from forming, cooperating with and contributing money to any political party, provision of 'one company, one union' denying the right to organize autonomous unions parallel to existing company sponsored co-opted (*oyong*) unions, a clause prohibiting third party engagement in collective bargaining and other industrial disputes and thus denying solidarity formation among workers and other popular sectors. New labor codes showed that the government's policy of industrial relations coincided with what has been termed 'pluralist company unionism.'<sup>24</sup> The post-authoritarian state retained a market principle in managing capital-labor relations.

Korean 'company unionism' suffers from some of the same problems evident in the pluralism of industrial relations in the US: low unionization rates among workers, organizational fragmentation at national, industry, and shop-floor levels, and the high frequency of strikes. Three bans constrain Korean industrial relations: a ban on third-party intervention, a ban on the principle of one company-one union, and the ban on political activities of unions. The Korean pluralistic company unionism is dominated by a mechanism of market competition among unions and firms where decentralized unions have been competing with each other to raise wages, sparking disruptive confrontations with management. Under extreme

pluralism firms and unions seeks to maximize short-term gains at the expense of long-term interests such as economic stability and growth. Wage rates are settled by strikes. *Chunhyop* (spring settlement) after *Chuntu* (spring strikes) is the typical Korean style of wage negotiations. High strike rates, lockouts, police intervention in the workplace are the costs that Korea had paid as a consequence of adopting such an extreme pluralism. Since labor-capital confrontation has been the rule for wage negotiations rather than the exception, festering labor unrest remains unresolved, threatening international economic competitiveness and weakening efforts towards democratization.

Another feature of Korean industrial relations is company paternalism. Now, the company, not the state, is the main provider of welfare to workers. Out of a paternalistic impulse, Korean firms provide company housing, finance house purchases, subsidize education costs of workers' children, and provide sports and health amenities, etc. In return for company welfare, the management demands the loyalty of workers, expects them to internalize an enterprise consciousness and a company-centered productionist ideology, and to participate enthusiastically in productivity-enhancing movements such as QC (quality control) and ZD (zero defect) movement. The exchange here of welfare for worker commitment reminiscent of Japanese unionism has been developed without the 'three sacred treasures' of Japanese industrial relations: lifetime employment, the *nenko* (seniority pay and promotion system), and enterprise unionism.<sup>25</sup> In contrast, recent innovations in Korea such as the introduction of a 'pay for performance' system and a new personnel system based on job evaluation have been regarded as a kind of capitalist strategy to establish a flexible system of wages and to raise work intensity, quite unlike the Japanese system.

Under the 'new' democracy of President Roh from 1988, the mixture of pluralism and paternalism has not integrated organized workers into a tripartite partnership of the state, capital and labor. Even though individual labor unions are accepted as legitimate actors in collective bargaining, they appear at best 'affiliations' rather than 'associations.'<sup>26</sup> Labor unions in Korean firms are more like 'company unions' in the original sense of being dependent wholly on the management in a paternalistic system, as opposed even to Japanese 'enterprise unions' with their own bases for relative autonomy. Company unions can be described as 'affiliations' in the sense of assignment to a group solely because of employment by the company. There is no external legal basis for membership, and no ties to labor organizations beyond the firm.

A transition from simply company affiliation to more autonomous labor association appears necessary to consolidate the new democracy. Unions should be strengthened with an independent legal basis within and beyond

the firm, particularly with ties to industrial federations and the peak or umbrella labor organizations. Unions that have carefully structured, consciously designed organizational objectives, responsibilities, and privileges beyond the discretion of the paternalistic management of the firm, or the factional priorities of the union leadership, might be termed ‘associations.’<sup>27</sup> Without such consolidation into more independent associations and beyond simply company affiliation, unions have neither the incentive, organizational resources, nor responsibility for maintaining the Korean capitalist system as industrial citizens. If the state and management continue to defend their own autonomy by keeping workers in an isolated market situation, workers may well join forces to rebel collectively against the state’s control of the market order. As Karl Polanyi pointed out, unconstrained market movements sparked the counter-movement of civil society to protect themselves against the destructive forces of the market and the state.

### **Prospects for an associative mode of industrial relations in Korea**

I have argued that the combination of market-oriented pluralism and company paternalism cannot meet the demands of democratic consolidation in South Korea. Second, I have proposed the associative model as a suitable alternative, but have yet to cite its feasibility. I might begin with some hopeful signs for meso or sectoral corporatism in contemporary, post-authoritarian industrial relations in Korea. First, union leaders are attempting to establish federations along craft or industry patterns to overcome restrictions of company unionism in collective bargaining. Second, many sectoral, professional, union federations have been established within individual Korean conglomerates or *chaebol*, strengthening individual company unions within a conglomerate-wide federation. Third, we find regional federations of workers emerging with the advent of more distinct and autonomous regional economies following the devolution of power from central to local governments. Finally and perhaps most significant, several proto-corporatist experiments have been undertaken among the representatives of capital, labor and the state.

Yet on the whole, necessary conditions for the establishment of associative democracy appear either weak or absent in South Korea. For instance, private interest governments at occupational, sectoral, professional, regional levels of interest associations appear critical for associative democracy but have not yet appeared in Korea. Yet one can cite an initial precedent such as the Federation of Korean Industries (FKI) which has functioned as a kind of private interest government for big business. For example, the FKI recently

decided who would be the main contractor of the Second Mobile Telecommunication company, but this may represent only a sporadic, *ad hoc* policy mechanism for a government hard-pressed to establish policy in new, increasingly complex industries. What the FKI lacks is the government's guarantee of the public status of a private interest government.

Second, initial patterns of concertation have appeared at the micro and macro level, similar concertations cannot be found at the meso, sectoral, occupational, functional levels of industrial relations. Concertation at the micro or company level appears in the activation of 'labor management cooperation councils.' Yet concertation at the micro or company level is far short of the level of concertation which is found in the case of Japanese Toyotism, Swedish Kalmarism or German Codetermination in which unions actively participate in the joint efforts to raise competitiveness of the company to survive against intensifying global competition. There is more evidence of macro-corporatism. The April 1st Wage Pact in 1993, and the March 30th Wage Pact in 1994 were typical examples of concertations at the macro level. In these pacts, the National Economic and Social Council brought together representatives of labor, capital, and non-government public representatives to decide the rate of wage raises. This is evidence that authoritarian wage determination in which the state unilaterally imposed wage rates from above with a so-called 'wage guideline' has been replaced by a neo-corporatist wage settlement. However, the Korean effort at corporatist concertation remains limited to experiments on specific issues such as wage rates and uninstitutionalized *ad hoc* efforts, without reference to more general labor politics. It is in fact an *ad hoc* concertation of a proto macro-corporatism. If concertation is not institutionalized, then participants in the concertation can defect from the pact any time conditions change. Indeed, the Federation of Korean Trade Unions (FKTU) refused to participate in a wage pact with capital this year.

Why has the experiment of macro-corporatism failed? It is because Korean associational environments did not satisfy three conditions necessary for corporatist concertation at the macro level: (1) both national union federation or confederation and employers' association must have an organizational monopoly sufficient to discipline member unions and member firms; (2) a pro-labor government must be in office for long periods of time, or strong social democratic party-union ties must be in place to make unions willing to engage in political exchange of private wage restraint for welfare services; (3) the state must have the capacity and autonomy to serve as the agent of universal rationality beyond the more narrow interests of capital. None of these conditions have existed in Korean industrial relations. Unions are still weak and fragmented. Two national peak associations of labor divide national union movements. The FKTU represents about 4800 unions and 1.2 million

workers, while the Congress of Korean Trade Union Representatives (CTUR) represents 1200 unions and 0.4 million workers. This means the FKTU, the official representative of workers in the tripartite wage agreement, does not have monopoly power to represent workers as a whole. Second, no established political parties have ties with organized labor. Without entrenched pro-labor parties who have the capacity and willingness to represent workers' interests in the state's macroeconomic policy, Korean workers are not assured that their wage restraint would be compensated in the near future by more employment, less inflation, and better welfare systems. Since the state has been always pro-capital, there is no reason to expect that the Korean state will act as the agent of universal interests of both capital and labor to guarantee the conditions of pacts with capital and to compensate the costs of wage restraint.

Third, social welfare systems which insure successful associative democracy still appear weak in South Korea. Institutionalization of concertation among interest groups would be promoted when costs of concertation can be compensated by the provision of welfare services. To induce wage restraint agreements among workers, it is necessary that the costs of wage restraint be compensated by the provision of welfare as a kind of social wage. Yet the current state of Korean social welfare falls below the level of welfare of less developed nations like the Philippines. Since the democratic transition from 1988, a minimum wage, pensions, and medical insurance have been introduced, but Korea still does not have unemployment insurance, family allowances, or social security. In addition, the Korean welfare system is characterized by a market-dependent welfare system. Rather than state provision, welfare is funded and provided by private companies and therefore welfare payment is highly dependent upon market conditions. The market-dependent welfare system increases the inequality of welfare between large company workers and small and medium company workers. The principle that 'beneficiaries should pay for part' shows that market-conforming principle is adopted in the state provision of welfare. A neo-conservative argument that social welfare diminishes the incentive to work appears to undergird welfare systems in Korea, with the principle of welfare as social income excluded from welfare policy.

### **Korean solution: association in a confederal welfare state**

Despite the difficulties of implementing an associative model in South Korea, it deserves further attention given its promise of stable industrial relations so important for the consolidation of a new democracy in an era of globalization.

Having succeeded largely in export-oriented industrialization, the Korean economy today remains among the most dependent on world markets. Without self-restraint among both workers and capitalists at home, open-ended class conflicts may disrupt the small, open, internationally exposed economy and threaten its fragile democratic institutions as a result. Given the need for harmony in labor relations, and the promise of the associative model, the following policies may well promote associative democracy in South Korea.

First, the 'poison pills' of authoritarian labor codes, such as 'one company one union', the ban on third party intervention in collective bargaining, and the ban on political activities of unions should be abolished. The first step toward industrial democracy is to establish a formal equality between capital and labor to avoid the extra-legal 'street politics' which weaken democratic institutions. Second, with formal equality established, the state and capitalists should cooperate with workers to change union structure from decentralized and fragmented 'company unionism' to meso or sectoral, conglomerate-based federations. Private interest governments of worker federations should be organized at the level of industrial sector, region, vocation, and big business group. Macro-corporatism based on industrial unionism appears unrealistic, unfeasible and ineffective in South Korea. It is unrealistic because business and the state oppose industrial unionism. It is unfeasible because of heterogeneity within the same industries. It is ineffective because within each Korean industry there is remarkable heterogeneity between big company and small and medium company, conglomerate company and subcontracting company, export company and import substitution company. And finally, macro-corporatist strategies of industrial unionism can probably not meet the demand of flexibility necessary in the global era.

Third, there must be a division of functions between private interest governments at the national level (FKTU, FKI, Korean Employers' Association) and at the meso-level. While national level associations such as National Economic and Social Council do take charge of encompassing policy issues such as economic restructuring for international competitiveness, solutions to growing sectoral inequalities, and expanding social welfare to protect losers in market competition, meso-level associations should be responsible for settling wage rates by forming tripartite pacts. Given the fact that the industrial structure of Korea is dominated by big business groups or conglomerates, union associations at the *chaebol* (e.g. Hyunchongryun, Daenohyup) should be recognized with the status of private interest governments. To prepare for the 'glocalization' (global localization), there should be a system of coordination among local government, local labor associations, and local firms. There should be meso-level political exchange on the issue of investment, employment, wage restraints, environment, industrial relocation, infrastructure, housing, education, etc.



Finally, welfare provisions should be expanded and intensified. We still do not have any hard evidence for the neo-conservative argument that welfare provision reduces investment and the supply of labor. The failure of the welfare state is the failure of the state, not the failure of welfare democracy. More than that, while neo-conservatism of the West arose from the failure of welfare state, Korean neo-conservatism arose out of a preemptive strike against the possibility of welfarism. Never experiencing the consequences of welfarism, Korean conservatives raise their voice against the expansion of welfare service. Speaking about 'English disease' or 'European disease,' they try to prevent the introduction of welfare. But welfare should be provided and a welfare democracy created, since this is the only way to protect citizens from the vagaries of the market. Welfare is a kind of social wage that can be paid without participating in the market.<sup>28</sup>

At the same time the conventional idea that welfare must be provided by the state should be revisited, for the failure of the welfare state is a 'state failure.' The enormous growth of the state apparatuses and welfare bureaucracies and welfare bureaucrats maximized not citizen welfare but their private welfare. As a consequence the society as a whole suffers the net losses, i.e., what Becker calls 'deadweight losses.'<sup>29</sup> We must reconsider the conventional concept that welfare is planned and provided by the state, and distinguish between the design and implementation of welfare provisions. The state alone should not decide the level of welfare nor alone provide welfare services, but rather devolve the authority of welfare service to organized civil associations. If the level of welfare is decided by the compromise between organized groups of labor and capital, they can better link the level of welfare with increases in productivity. Once the level of welfare has been determined, then the state can assume responsibility for the provision of welfare benefits, but even here the responsibility for providing benefits may devolve to private firms that have been constrained to provide welfare efficiently with minimum costs. We must at the same time balance the benefits of subcontracting and outsourcing to private firms motivated by profit, with the public responsibility for welfare. Therefore in the provision of welfare service, we should make use of the associations. Currently volunteer movements in the US are proving to be an effective associative alternative both to the privatization of welfare which can cause market failure and to state welfare collectivism which can cause 'state failure.' Currently in the US the number of non-profit organizations (NPO) amount to 1 million and their activities are performed by 90 million non-paid staff and their activities account for one-tenth of the Gross National Product.<sup>30</sup> Despite radical inequalities and an underdeveloped state welfare system, the base of volunteer support in non-profit organizations remains a key to democracy in the US.

We do not yet find such civil input into welfare programs in South Korea. Currently the state and business favor the Japanese model of company welfarism. But because company welfarism is primarily based on the profit motivation of firms, it does not fit well into the fundamental objective of welfare, i.e. providing shelter to the victims of market competition. A Korean alternative must fall between the state and the market. A Korean welfare system should imitate neither Western state welfare collectivism nor a market-dependent welfare system. Koreans must preserve the virtues of indigenous family welfarism which is based on spontaneous solidarity among family members. But in the more complex and industrialized societies where traditional small community-based welfarism tends to fade, intermediary organizations can play a critical role.

First, the activities of non-profit organizations should be deregulated and the support to volunteer organizations increased. One-fourth of the budget of NPOs in the United States is supplied by the government. Local civic organizations can press the local government to plan and administer developmental policy in accordance with local welfare. Second, the authority for occupational safety and health as well as vocational training has to be transferred to civic associations that are endowed with the status of private interest governments. I would suggest devolving public authority to industrial and labor associations to design and implement vocational training curricula. For instance, the community-based environmental organizations can be used to monitor the compliance of firms with environmental controls.<sup>31</sup> Finally, organized civil associations and business associations can make an environmental pact in which a system of reward and punishment is established for the preservation of the environment. Through the organizational concertation between consumers and producers of environmental pollution, environmental destruction can be minimized by forcing the producer of environmental contamination to internalize the costs of destroying environments. In short, the welfare democracy that Korea has to pursue is neither the market-dependent welfare system, nor the state collectivist welfare state, but rather a 'confederal welfare state' with 'thin collectivism, thick welfare,' which is based on decentralization, civil voluntarism, and the virtues of community.<sup>32</sup>

### **Conclusion: theoretical significance of the Korean experience**

Compared to their counterparts in Eastern Europe or Latin America, Koreans enjoy some advantages in the process of democratic consolidation. Democratization often unleashes movements for ethnic autonomy but South

Korea may well be the most ethnically homogeneous nation in the world. Unlike the economic hardship which pressed the democratic transition elsewhere, economic success fostered the changes in South Korea. The authoritarian government had to withdraw from power because it had accomplished its historical mission of economic development, which had brought it into power. I have argued that the authoritarian government rendered itself obsolete by its own success, and was replaced by the new democracy to perform new historical necessities such as more freedom and welfare for the masses.<sup>33</sup> Besides continuing economic prosperity, the post-authoritarian state likewise retains credibility and a relatively efficient bureaucracy. Korea has thus avoided the post-communist Eastern European syndrome of ‘a weak state facing a weak society.’<sup>34</sup>

What the new democracy in Korea lacks is an institutionalized interest politics, painfully evident in the fading of authoritarian interest politics in which the state had managed and controlled interest conflicts between capital and labor from above. To paraphrase Gramsci, Korean interest politics is in a transition where the ‘old is dying but the new cannot be born.’ Korean interest politics today is an odd mixture of market-oriented Anglo-Saxon pluralism and Japanese company paternalism. Our review of current industrial relations reveals that neither the market nor the state can be the model for post-authoritarian industrial relations, and thus I suggest an associative model between market and state based on the virtues of organized communitarian solidarity. Specifically, an associative mode of industrial relations would be based on meso or sectoral corporatism.

What purpose would an associative model of industrial relations serve? I argue that it would permit an adequate response to the economic challenge of globalization without impeding the democratization project. Such a model would foster a strong civil society and offer fertile ground for virtues of a democratic culture such as tolerance, moderation, a willingness to compromise, and a respect for opposing view points.<sup>35</sup> Shils defines civil society as ‘a society of civility’ or civic virtue,<sup>36</sup> more broadly than the concepts of Hegel or Marx. For Hegel and Marx, civil society means *‘bürgerliche Gesellschaft’* that is bourgeois capitalist society (or market society). But I would expand the concept of civil society beyond market society to the sphere of community and culture, for as Fish aptly points out, ‘capitalism is possible in the absence of civil society, but without civil society, capitalism will not create a “civil economy.”’<sup>37</sup> Without a civil economy, civil society loses the element of community but retains the self-interest of market in which everybody pursues his/her own selfish interests in a Hobbesian war of all against all. For the consolidation of new democracy, therefore, we must construct a robust civil society based on civic virtue to overcome the limits of market society.

Second, an associative mode of industrial relations can best meet the exigencies of the globalization without damaging new democracy. We live in a global economy 'in which capital, production, management, markets, labor, information, and technology are organized across national boundaries.'<sup>38</sup> Globalization extends beyond the economy to the area of environment, culture and security. The government of Y.S.Kim publicly committed itself in December of 1994 to globalization (*segye-hwa*) as the prime goal of their administration. One criterion of success in the era of internationalization is economic strength in global markets. In the era of globalization, it is not the 'national competitiveness' of countries but more specific strengths of firms, workers, and peasants who compete across national boundaries. The persisting argument for 'national competitiveness' in a global era reflects a neo-mercantilist effort to boost strategic industries at the expense of welfare of the popular masses.

More than anything else, international competitiveness should not be understood in productionist terms as solely economic competitiveness. Competition in the era of globalization depends on the ability and capacity to raise the level of social welfare, to improve work conditions, and to sustain a healthy environment. In the US 'Report of President's Commission on Industrial Competitiveness' we find a definition of competitiveness as the 'ability to produce goods and services that meet the test of international competition while our citizens enjoys a standard of living that is both rising and sustainable.'<sup>39</sup> This means that international competitiveness depends not only on the ability to compete but also on the ability to improve the standard of living, i.e. wider provision of welfare systems to the working masses. If we define international competitiveness in these terms, then it would be clear that the associative mode of industrial relations best reconciles the dual goals of democratization and globalization.

However, despite its many virtues, the associative model is not without problems,<sup>40</sup> such as factionalism, divisive regional and group interests. Second, reminiscent of the iron law of oligarchy, one fears that leaders of interest groups might become oligarchs, and freeze and distort the future debate and choice.<sup>41</sup> One might also question the relevance of associative democracy to the Korean situation. Structural and cultural preconditions of religious solidarity, regional economies and of a guild socialism based on craft production encouraging associative democracy cannot be found in Korea. The rapid rise of regional and group factionalism in the democratic transition warns us that the meso or sectoral corporatism may aggravate the potentially divisive self-interest of any specific group, region, or other collectivity. It is only partially true that Korea does not meet the structural and cultural preconditions for associative democracy. The revival of traditional associative form of *Dongari* or *Pomasi* shows us the presence of

community-based cooperation. Village community, neighborhood love, family welfarism, and community welfarism are evidence that Korea does not lack ample traditions of civil association.

What arguments about the absence of preconditions neglect is that such structural and cultural preconditions are not fixed. Associative environment can be nourished by deliberate efforts.<sup>42</sup> Associative democracy does not always evolve in countries with traditions of religious solidarity, regional economies, and craft production. On the contrary, associative democracy emerged in the countries without such structures and cultures. Nature does not preclude the success of associative democracy. Without religious solidarity, associations may help moderate the destructive effects of market competition by the introduction of civic association based on secular, communal solidarity. In countries without the historical tradition of regional economy, regional economy is fabricated artificially to seed joint projects and to lower information costs.<sup>43</sup> Countries without a tradition of craft production have developed craft production systems to secure small producers with legally binding membership. So far we can easily find many cases where the barriers to associative democracy were overcome by the deliberate efforts of the state and civil society. If we accept associative democracy as the alternative both to a self-destructive market, and to the repressive and inefficient state, we should not lament the absence of preconditions for associative democracy or wait passively until the preconditions are in place, but rather innovate and fabricate the environment for a successful associative democracy.

## Notes

- 1 Guillermo O'Donnell and Philippe C.Schmitter, *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies* (Baltimore: Johns Hopkins University Press 1986).
- 2 Adam Przeworski and Pranab K.Bardhan, eds, *Sustainable Democracy* (Cambridge: Cambridge University Press 1995), p. 25.
- 3 Schmitter defines 'consolidation' as 'the process of transforming the accidental arrangements, prudential norms, and contingent solutions that have emerged during the transition into relations of cooperation and competition that are reliably known, regularly practiced, and voluntarily accepted by those persons and collectivities (i.e., politicians and citizens).' Philippe C.Schmitter, 'Interest Systems and the Consolidation of Democracies,' in Gary Marks and Larry Diamond, eds, *Reexamining Democracy* (Newbury Park: Sage Publications 1992), p. 158.
- 4 Dankwart Rustow, 'Transition to Democracy,' *Comparative Politics* 2, 3 (1971): 342-368.
- 5 According to Schmitter, the type of industrial relations affects the distribution of benefits, the formula of legitimation, the level of citizen satisfaction, in a word,

- the quality of democracy rather than the quantity and duration of democracy. Schmitter, 'Interest Systems and the Consolidation of Democracies,' p. 166.
- 6 Wolfgang Streek and Philippe Schmitter, 'Community, Market, State, and Associations?,' in Streek and Schmitter, eds, *Private Interest Government: Beyond Market and the State* (London: Sage Publications 1985), p. 11.
  - 7 *Ibid.*, p. 13.
  - 8 Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (New York: Beacon Press 1944).
  - 9 Francis Fukuyama, 'The End of History?,' *The National Interest* (1989): 3–4.
  - 10 John E. Trent, 'Democracy in Danger,' paper presented at XVI World Congress of the International Political Science Association in Berlin, Germany 1994.
  - 11 Paul Hirst, 'Associational Democracy,' in David Held, ed., *Prospects for Democracy: North, South, East, West* (Cambridge, MA: Polity Press 1993), p. 112.
  - 12 Schmitter, 'Neo-corporatism and the State,' in Wyn Grant, ed., *The Political Economy of Corporatism* (London: Macmillan 1985), p. 47.
  - 13 Joshua Cohen and Joel Rogers, 'Associative Democracy,' in Pranab K. Bardhan and John E. Roemer, eds, *Market Socialism: The Current Debate* (Oxford: Oxford University Press 1993), pp. 236–252; Cohen and Rogers, 'Secondary Associations and Democratic Governance,' *Politics and Society*, vol. 20, no. 4 (1992): 393–472; Paul Hirst, *Associative Democracy: New Forms of Economic and Social Governance* (Amherst: University of Massachusetts Press 1994); Alan Ware, *Between Profit and State: Intermediary Organizations in Britain and United States* (Cambridge, MA: Polity Press 1989).
  - 14 Kathleen Thelen, 'Beyond Corporatism: Toward a New Framework for the Study of Labor in Advanced Capitalism,' *Comparative Politics*, vol. 27, no. 1 (1994): 107–124; Karl Ove Moene and Michael Wallerstein, 'What's Wrong with Social Democracy?,' in Bardhan and Roemer, eds, *Market Socialism*, pp. 219–235.
  - 15 Alan Cawson emphasizes that the macro/meso/micro distinction concerns the level of interest organization, while the sectoral/trans-sectoral distinction concerns the scope of policy bargaining. 'Meso' refers to those organizations, which operate between peak national associations and individual firms and unions. Cawson, 'Introduction: Varieties of Corporatism,' in Cawson, ed., *Organized Interests and the State: Studies in Meso-Corporatism* (London: Sage Publications 1985), p. 12.
  - 16 *Ibid.*, p. 11.
  - 17 *Ibid.*, p. 12.
  - 18 Cohen and Rogers, 'Secondary Associations and Democratic Governance,' p. 437.
  - 19 Ware, *Between Profit and State*, p. 259.
  - 20 Hirst, *Associative Democracy: New Forms of Economic and Social Governance*, p. 25.
  - 21 Hyug Baeg Im, 'From Market Authoritarianism to Market Democracy: The Market and the State in the Korean Transition to Democracy,' paper presented at the Sixteenth World Congress of the International Political Science Association in Berlin, Germany 1994; Ho Keun Song, *Open Markets and Closed Politics* (Seoul: Naman Pub. 1994).
  - 22 Samuel Valenzuela, 'Labor Movements in Transitions to Democracy,' *Comparative Politics*, vol. 21, no. 4 (1989): 446.
  - 23 Hyun Chin Lim and Byung Kook Kim, 'Labor and Democratization in Korea: A Search for a Social Pact,' in Doh Chul Shin, Myeong-han Zoh, Myung Chey eds, *Korea in the Global Wave of Democratization* (Seoul: Seoul National University Press 1994), p. 123.

- 24 'Company unionism differs from enterprise unionism. In enterprise unionism, employees of the same firm, irrespective of whether they are blue or white collar workers are organized together in a single union, while in company unionism, unions are organized on the workers' own initiative and by their own free choice.' Harou Shimada, 'Japanese Industrial Relations: A New General Model?' in Taishiro Shirai, ed., *Contemporary Industrial Relations in Japan* (Madison: University of Wisconsin Press 1983), p. 8.
- 25 Ibid.
- 26 'Association' is a legal term for a 'body of people joined for a common purpose,' while 'affiliation' referred originally to adoption of an orphan, assignment to its origin, as opposed to membership in a family by birth; more recently, the term is used for 'relationship by inclination or affinity.' C.T.Onions, ed., *The Oxford University Dictionary* (Oxford: Clarendon Press 1964), p. 31.
- 27 Dennis McNamara has alerted me to this distinction.
- 28 Gosta Esping-Anderson, *Three Worlds of Welfare Capitalism* (Cambridge, MA: Polity Press 1990).
- 29 Gary S.Becker, 'A Theory of Competition among Pressure Groups for Political Influence,' *Quarterly Journal of Economics*, vol. 98 (1983): 371-400.
- 30 Peter F.Drucker, *The Post Capitalist Society* (New York: HarperCollins 1993).
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- 32 Hirst, 'Associational Democracy.'
- 33 Im, 'New Democracy and Structural Economic Adjustment,' in Doh Chul Shin, Myeong-han Zoh, Myung Chey, eds, *Korea in the Global Wave of Demoralization* (Seoul: Seoul National University Press 1994), p. 123.
- 34 Przeworski, *Sustainable Democracy*, p. 78.
- 35 Larry Diamond, 'Toward Democratic Consolidation,' *Journal of Democracy*, vol. 5, no. 3 (1994): 7.
- 36 Edward Shils, 'The Virtue of Civil Society,' *Government and Opposition*, vol. 26, no. 1 (1991): 3-20.
- 37 M.Steven Fish, 'Russia's Fourth Transition,' *Journal of Democracy*, vol. 5, no. 3 (1994): 41.
- 38 M.Castells, 'The Informational Economy at the New International Division of Labor,' in Martin Carnoy *et al.*, *The New Global Economy in the Information Age* (University Park, PA: Pennsylvania State University Press 1993), p. 18.
- 39 Laura Tyson, *Who's Bashing Whom?* (Washington, DC: Institute for International Economics 1993).
- 40 Cohen and Rogers, *Market Socialism: The Current Debate*, and 'Secondary Associations and Democratic Governance.'
- 41 'Secondary Associations and Democratic Governance,' p. 245.
- 42 *Market Socialism: The Current Debate*.
- 43 'Associative Democracy,' p. 243.

## 6 From patron to partner<sup>1</sup>

### Korean state role in the textile transition

*Dennis L. McNamara*

The South Korean state now faces the challenge of both sunrise and sunset industries, development and decline, growth and adjustment. Despite exporting close to 18.4 billion dollars of textiles in 1996,<sup>2</sup> profits have fallen due to higher labor costs, growing competition in their former niche market of the lower value-added products of yarn and fabric, and aging technology. Spinning mills have slashed their workforce in half since 1990, shed 80 per cent of their looms and 30 per cent of the spindles, leaving 29,000 workers to operate a total of 4,500 looms and 2.5 million spindles in 1995.<sup>3</sup> A long production stream for export includes upstream spinners and synthetic fiber producers, midstream weavers and dyers, and downstream assemblers in the garment industry. Larger and smaller firms have had to choose among difficult alternatives of product specialization and upgrading, offshore production, or diversification out of the textile industry. The state fostered the industry from the mid-1960s as its leading exporter, ignored it in the mid-1970s in favor of heavy and chemical industry, and tried to rescue the industry from the 1980s with the Industrial Development Law of 1985.

The textile industry today remains an important employer, exporter, and source of regional development and production in the major cities of Seoul, Taegu, and Pusan. Encouraging the industry to move up from its status as fifth largest textile exporter in the world, the Ministry of Trade, Industry and Energy recently set a goal of a 30 per cent increase in textile exports by 2005.<sup>4</sup> Such export ambitions demand further integration and cooperation along the long production line from raw materials to finished product that the state has fostered since the 1950s. For instance spinning moguls such as Dainong, Choongnam, Kabul, Dongil, Ilshin and others have introduced special spinning, weaving, and finishing techniques to produce polynosic blends, easy-to-care materials, soft touch and luster effects. But effective production of such items demands a system 'enabling weavers, dyers and finishers to closely cooperate with one another as well as acquiring technology.<sup>5</sup> In the absence of general trading companies responsible for



domestic as well as foreign markets, as found in Japan, the Korean state has had to play a major role in creating and sustaining cooperation along the line, mainly through trade associations. But how can the state now continue to nourish and promote that production line given efforts to liberalize markets and democratize relations with capital? The industry offers a prism on the simultaneous challenges of democratization, market liberalization, and industrial restructuring.

Reviewing state economic policy of the early 1980s, Pack and Westphal cited a 'dual policy structure' of intervention versus *laissez-faire*, depending on whether a particular sector found a dynamic or only static comparative advantage in international markets.<sup>6</sup> In a similar vein, Eun Mee Kim recently contrasted the developmental versus regulatory roles of the Korean state. She recalled Chalmers Johnson's original term 'developmental state' defined as plan-rational rather than market-rational, developmental rather than regulatory, and giving priority to industrial policy over foreign policy. Kim outlined a transition in the South Korea from a 'comprehensive developmental state' towards a 'limited developmental state' with a heightened regulatory role and multiple competing objectives such as foreign policy and welfare, as well as development. But the author argued further that even in what she terms the 'limited developmental state,' the state pursues a plan-rational approach in certain segments of the economy, while releasing other segments to the vagaries of the market.<sup>7</sup>

A plan-rational, interventionist role remains for the state in sectors defined as 'depressed industries' with static comparative advantage. Earlier patterns of state dominance in industry have faded, but what new patterns of cooperation or contention can be identified which will bridge the crisis of adjustment? Assessing the state role in development, Peter Evans cited functions of midwifery and husbanding, where states help reduce risk and uncertainty in a new industrial endeavor by erecting a 'greenhouse' which shields local industry from foreign competition through trade protections, tariffs and controls on foreign investment. Subsidies and incentives may also be used to bring this industry to birth. Evans paralleled midwifery with 'husbanding' which is less extensive and directive, but none the less includes 'a combination of support and prodding' with an existing network of private enterprise, and singled out Korean textiles as a classic case of mid-wifery and husbanding through state support and greenhouse protection.<sup>8</sup> Besides the functions of midwifery and husbanding, I add dimensions of status and organization to the role by linking corporatist patterns of cooperation in the term 'patron.' The latter term also connotes clientelist aspects of the state/business tie in Korea, but I limit this study to the corporatist dimension. Drawing the developmental functions into the concept of state corporatism provides both a comparative bridge to the efforts of other industrializing

states, and an analytic focus for examining the Korean path of growth in a leading sector of their export-oriented industrialization.

Corporatist efforts to structure interest exchange between state and capital would include the designation and even state subsidy of corporate units or associations, state efforts to incorporate these units into the enforcement and formation of economic policy, and priorities of either control or devolution of authority to designated groups in order to ensure cohesion and a common direction. A more authoritarian, directive role for the state in 'state corporatism' was highlighted in studies of bureaucratic authoritarianism under the regime of Park Chunghee, particularly in the 1970s. Lee Byoung-do recently cited state corporatism to characterize state/capital relations in Korea's earlier textile industry, insofar as the state initiated the patterns of a semi-official business organizations to represent its interest and accomplish policy goals.<sup>9</sup> But if a strong state played roles of midwife and husbanding, greenhouse and prodding among fledgling textile firms across a long production line for export through the 1970s, Leipziger and Petri have chronicled the recent unraveling of state/business ties and decline of state initiative in industrial policy.<sup>10</sup> Analysis of state and trade association in the recent textile adjustment reveals corporatist continuities, but now with mogul firms and their associations taking the initiative in policy formation and enforcement. Turning from wider issues of state versus societal corporatism, I find initial evidence of a shift in the textile industry towards 'meso' or sectoral corporatism.

If the term 'patron' taps central functions of a state corporatist role in South Korea's earlier textile industry, the term 'partner' suggests a new state role of greater equality, but still a shared commitment to harnessing public and private resources to the restructuring process quite distinct from the Anglo-American ideal of state as disinterested broker. Evidence of partnership would include for instance joint efforts to shape and enforce policy, as well as clearly identified and institutionalized interests among both capital and the state, active in shaping joint goals for the industry. In this chapter, I review the structure and functions of both state bureaucracy and peak trade association in recent efforts at industrial adjustment. Assessing a state role through scrutiny of institutions and adjustment programs, I track the transition from corporatist patron to corporatist partner.

## **State**

In 1996 the Textile Department in the Bureau of Industry included a department chief, and a staff of about six people working at the Kwachon government building in a suburb of Seoul.<sup>11</sup> The shrinking of the department

over the previous two decades within the huge Ministry of Trade, Industry, and Energy (MOTIE) reflects a declining state role in the industry, but also a specialization of state functions. Firms and textile trade associations find themselves working with other bureaux within MOTIE on matters of trade and technology, and with other government agencies such as the Ministry of Finance. Cities such as Taegu and provinces such as North Kyongsong also operate bureaux for the textile industry within their own offices, but the Textile Department in Kwachon remains the focus for government coordination of policy and enforcement for the industry. In conjunction with the industry trade association, the Ministry published a 'Textile Vision' statement in 1995 establishing an export goal of \$25 billion by the year 2005,<sup>12</sup> and approved the third extension of industrial protection for the industry, covering three years through 1997. The latter provides special credits for improving technology at small and medium firms, and continues the registration system for spinning machines to control capacity.<sup>13</sup> Clearly the state remains interested and involved in textile policy.

Programs in 1995 reflected three changes in government textile policy dating roughly from the Industrial Development Law, originally approved in 1985: from industry-specific policies to macroeconomic priorities; from firms to infrastructure support within sectors; and from larger-scale enterprise to support of small and medium industry.<sup>14</sup> Macroeconomic priorities of trade, finance, and labor continue to affect the textile industry, and remain points of contention or agreement between state and organized private interests, but now industries such as textiles must lobby their position in competition with other industries. For instance, spinning mills upstream and garment factories downstream which attract fewer Korean workers, now must lobby hard to obtain work visas for Chinese laborers. Spinners having recently lost special US government-provided credits for purchase of raw cotton, now must lobby the government for loans to import raw materials.<sup>15</sup> Second, the shift from firms to infrastructure was apparent already in the Industrial Development Law of 1985. Support for research and technology may have superseded directed credits as the central policy tool, but did not preclude specific industrial interventions, such as those for depressed industries.<sup>16</sup> Indeed the critical shift in textile industry interventions was one of both scale and sector, apparent in the reorientation from large enterprise to small and medium-size firms, and from the upstream producers to the midstream dyers and finishers.

Recent policy reflects a new partnership between state and capital in textiles, far different from the midwife role in both markets and manufacture of earlier decades. The state in the First Republic (1948–1960) sold off vested Japanese spinning properties to local investors to establish the local spinning industry in the 1950s, and then helped firms procure aid-supported

raw cotton and machinery. Protection from textile imports insured the local makers of a captive market. In the Third Republic (1963–1972), the state provided preferential credit through state-controlled banks at interest terms below market.<sup>17</sup> Measures to expand equipment and moderate adjustments to dramatic market fluctuations, and discrepancy in prices between domestic and foreign markets were initiated in 1966, but formalized and strengthened in the ‘Interim Measures Legislation for Textile Equipment’ in 1968. State priorities of manufacture were coordinated with a state-directed reorientation towards foreign markets. The Ministry of Commerce and Industry, predecessor of MOTIE, coupled import protectionism in the domestic ‘greenhouse’ with support for exports. To insure growth without cut-throat competition the government established a principle of ‘scrap and build’ through which it supported and prodded the industry with a program to register spindles and subsidize new equipment. Financial assistance and preferential loans linked to export growth helped spur rapid growth of both firms and exports, just as regulators with ‘administrative guidance’ helped curb unfair and excessive competition. Under the banner of ‘rationalization,’ the state hoped to moderate market imperfections for an expanding production line.

Export credits continued but equipment support faded in the next decade with the government’s turn to heavy and chemical industries. Indeed as one observer noted, ‘firms were at times brutally weaned from subsidized credit, having instead to quench much of their thirst for funds in the curb (informal) market.’<sup>18</sup> The Fourth Republic (1972–1979) ironically represented both the most authoritarian, directive years of state industrial policy, and the end of the government’s midwife role in the textile industry, but changes in the state/business relationship can be traced to capital as well as state. Mogul spinners concentrated in their powerful Spinners and Weavers Association of Korea (SWAK) had profited in the export drive and grown increasingly independent from government directives. A government audit of the association in 1973 uncovered price-fixing and cartel behavior, resulting in the firing of most of the SWAK staff and prosecution of 150 government officials for taking bribes. Yi T’ae-hyong argued this single event marked the end of a close and sometimes corrupt relationship between the state and the plutocracy of major spinners. But there were other factors. Moskowitz cited a cotton crisis of 1974 which caught SWAK producers exposed with expensive contracts on a raw cotton market with falling prices.<sup>19</sup> One might also cite the state’s new commitment to heavy and chemical industrialization which diverted capital, credit, and skilled labor from light industries. The constellation of events eroded the status of textiles as a leading exporter and employer, and the independence of SWAK, the leading subsectoral trade association in the industry. One

immediate result was a shift toward more transparent, bureaucratic ties between state and the textile industry.

Looking to SWAK's positions on international trade, Moskowitz also noted a humbled SWAK quickly returned to the state fold in the mid-1970s. Eun Mee Kim cited renewed government support including preferential loans and tax breaks in the 1980s as evidence of a new alliance between the state and industry. Noting the significance of this return to an earlier patrician pattern, she argued 'it is important to examine how the relationship between the state and local capitalists, once set at a more bureaucratic level, can return to a particularistic level with increased state support.'<sup>20</sup> The corporatist thesis sheds light on the structural, formal aspects of a particularistic relationship between state and industry mediated by trade associations, and offers markers for tracking a shift from a more directive to a more participatory role for the state. Textiles regained the government's attention with the 'Textile Industry Modernization Promotion Law' of 1980 which solidified the leadership of KOFOTI (Korean Federation of Textile Industries) among the multiple sub-sectoral trade associations such as the Spinners and Weavers Association. Secured with a fund of \$14 million from matching contributions of state and private sector, the Association took responsibility for enforcing government programs in the industry, including the Textile Modernization Fund.<sup>21</sup> The law of 1980 marked a watershed in state-capital relations in the industry.

## **Association**

Organized initially in 1967 with a joint grant from the Korean Traders Association and the Ministry of Commerce and Industry,<sup>22</sup> KOFOTI retains that endowment, a multi-story headquarters, and a prime piece of real estate in the trendy Samsong section of Southern Seoul next to the World Trade Center. The organization operates with donations from major member firms and MOTIE, rather than dues, and employs a staff of about fifty.<sup>23</sup> A balance of member trade associations with member mogul textile firms gives the association additional clout with the government. Leadership includes a chairman from the private sector elected for three-year terms, and a vice-chairman appointed by MOTIE. Mr Chang Ik-yong of Sukwang Co. was elected sixth chairman of KOFOTI in December 1995.<sup>24</sup> Mr Yu Deuk-whan, executive vice-chairman until 1996, was formerly with the Ministry of Trade and Industry, and Economic Attaché to Washington from 1982 to 1986. The organization offers the following self-description: 'KOFOTI acts as a central organization to carry out the modernization and development of Korean textile industries.'<sup>25</sup> Members include twenty-

seven textile trade associations, and twenty of the largest textile traders and upstream producers. Scholarship on the organization chronicles a changing state-business relationship. Karl Moskowitz argued in 1984 that KOFOTI's most important function was to 'coordinate communication with the government and compliance with government policy,'<sup>26</sup> but Kim Eui-young argued a decade later that KOFOTI now led 'the textile industry in its collective action toward policy change by establishing and implementing new policies.'<sup>27</sup> State and capital have both refined their roles but remain in harness. Vice-chairman Yu himself explained federation functions in 1993 as 'information, trade, and fashion promotion,' 'as well as government financing for medium and small firms, particularly in dyeing and finishing.' The contrast suggests directions of a new partnership.

Spinning and weaving mills in place in the 1950s expanded to meet growing domestic and export demand in the next decade. The decade of the 1960s also saw government permission for joint ventures with Japanese and US synthetics producers to develop an upstream source for nylon, polyester, and rayon. The advent of the general trading companies in the late 1960s provided a further spur for the industry as big traders such as Daewoo established their own garment factories, or subcontracted production to smaller garment makers. The growing complexity of the textile production line both upstream and downstream, and its critical role in employment and foreign exchange, led to the organization of a new peak organization to coordinate the efforts of both firms and trade associations in the industry. Legislation in 1967 and again in 1979 strengthened government oversight to control investment in the industry, and made the information and reporting activities of KOFOTI all the more important. But it was only with renewed state attention in the 1980s, and particularly with responsibility for the Textile Modernization Fund of 1980, that KOFOTI came into its own as a major player with the government in coordinating the organization and direction of the industry. One key feature of the Modernization Fund was the equal participation of both state and private sector in assembling a credit facility to support procurement of new technology.<sup>28</sup> A second feature was the inability to generate more than from three to nine million dollars of credits annually through 1985, due to a downturn in profits for the big textile firms, and conservative fiscal policies of the government.

The Industrial Development Law of 1985 brought KOFOTI new responsibilities and new funds to oversee, with a Structural Adjustment Fund for spinning, weaving, and dyeing firms generating close to \$100 million in credits per annum in the first three years alone.<sup>29</sup> The Ministry of Commerce and Industry would decide on recipients of credit at favorable terms for replacing old machinery, but KOFOTI would have a major role

in publicizing the program, screening candidates, and monitoring results.<sup>30</sup> Medium- and small-scale firms remain under protection of the legislation until the end of 1997, with KOFOTI continuing to play a gatekeeper role.<sup>31</sup> The government extended about \$375 million in soft-term loans at 7 per cent annually to weavers between 1986 and 1995, discouraged new entrants into the sector, and allowed a tax reduction of from 3 per cent to 10 per cent on capital invested in new facilities between July 1986 and June 1992. The goal was to prevent excessive competition by discouraging newcomers, at the same time encouraging investment in new technology.<sup>32</sup>

The Association also takes initiatives in other adjustment efforts, such as the new information center at its headquarters, the fashion center, and more generally, the formation of a textile vision to integrate the industry. A new four-story fashion center is under construction on KOFOTI property, jointly financed by MOTIE and industry. Meanwhile MOTIE has pledged to organize a 'Cooperative Education-Industrial Council for Fashion,' to improve fashion institutes and education.<sup>33</sup> More important than specific projects, however, is the overarching vision of industrial growth envisioned by KOFOTI, and then promoted jointly by the association and the state. Enforcement of a recent vision was accented in a section on 'sophistication of production structure' of a seven-year plan in 1990 which called for expanding the oversight responsibilities of associations: 'in order to prevent excessive competition among corporations, the function of textile associations will be strengthened in order to maintain optimum manufacturing equipment size.'<sup>34</sup>

The complexity of the textile production line, as well as of Korea's position in international markets does not permit efficient direction from the small staff at MOTIE. Information resources alone of a peak association that combines mogul firms and subsector trade associations far surpass whatever data the government can gather on its own. Commanding the necessary expertise and resources, KOFOTI has assumed the initiative in fostering the textile production line of export, through formation of a textile vision and programs of adjustment, with the Textile Bureau at MOTIE lending its authority to the plan. Armed with its own endowment, as well as annual contributions from major firms and the government, and controlling the extensive credit programs for adjustment in the industry, KOFOTI has the financial clout to ensure some degree of cooperation along the production line for export. Although membership remains voluntary in subsectoral associations such as SWAK for the Spinners, the Korea Chemical Fibers Association for the synthetics producers, or the textile export association for the traders, member firms have little choice but to participate or lose access to both information and government programs. Membership in the peak association becomes all the more important for both associations and

the mogul firms. A pyramid of membership, knowledge, and expertise begins with local cooperatives of smaller textile firms in subsectors of the industry, including cooperatives of dyers on the recently organized industrial estates. Regional cooperatives such as the Taegu-Kyungbuk Weaving Cooperative, or the Taegu-Kyungbuk Weaving Industry Cooperative coordinate information among the smaller, local cooperatives, and lobby for regional goals before the national organizations such as the Korean Federation of Weaving Industry Cooperatives. A peak association such as KOFOTI can both cull information from the pyramid of local and national subsectoral organizations and implement policies and monitor progress through the same organizations. A formidable organizational network stretching from local firm to KOFOTI headquarters can marshal resources of information, expertise, and broad political representation critical for supporting coordination between state and industry on the local level. But given the framework, can we cite concrete examples of cooperation reflecting effective efforts at adjustment?

## **Adjustment**

The powerful Korean Federation of Industries (Chongyongyon) organized a series of meetings from 1993 on competitiveness, which included major firms and fourteen major trade associations, including KOFOTI and the Korea Chemical Fibers Association. Leading traders, synthetics producers, weavers, and knitters gathered in a meeting in December of that year to review competition and plan for growth. Kim Dok-hwan, president of Ssangyong Trade called for closer cooperation with small and medium industries, while others in the discussion highlighted inefficiencies in the distinctions between wholesalers and retailers. Ku Ch'ang-nam of Tongyang Nylon highlighted the weakness of the textile industry: no integration and no specialization. Discussions again highlighted integration of larger and smaller firms to improve competitiveness. But it was KOFOTI that dominated the discussions and presented the clearest plan of action. Vice-chairman of KOFOTI, Yu Deuk-hwan presented a vision statement which emphasized cooperation between sectors upstream and downstream, advocating an 'integrated competitive structure' and asserting the industry could not survive foreign competition without it.<sup>35</sup> The central problem of integration is clear, as is the initiative of the private sector, and the role of KOFOTI, but where is the state?

MOITIE more recently organized a committee of state, industry, trade associations, and academics entitled, 'The Cooperative Association of State and Private Sector for Development of New Industries (Sinsanop palchon



mingan hyomyrok hoeûi).’ The discussion at a meeting in July of 1996 brought together leaders from all four groups under the direction of the Vice-minister An to study the weaving industry. In the policy paper opening the discussion, Professor Ch’oi Yong-hwal argued that self-regulation of inventories and production must be improved to avoid excessive competition. He called for strengthening the role of associations in common tasks of information gathering, and integrating upstream and downstream production sectors.<sup>36</sup> State tasks included help for the industry in areas of tax and finance, labor, education, research and information. Again ‘rationalization’ policies remained a central responsibility of the state, but now with calls for greater participation of industry. One can cull from the discussions a profile of state and association in the adjustment process, with the former responsible for coordinating infrastructural projects and policies, and the latter more directly concerned with monitoring the long production line to foster cooperation and improve competitiveness.

One area of immediate concern is the subsector of dyeing and finishing, a bottleneck of poor technology which impedes efforts upstream to upgrade yarns and fibers. The industry within South Korea cannot go upscale towards higher value-added goods without high quality dyeing facilities. For more than a decade state and industry alike have singled out dyeing and finishing as the critical bottleneck in the long textile production line. One problem was excessive competition. For instance, over fifty new dyeing operations were begun in the Taegu area following the end of government controls on entry in 1990, sparking calls for the state ‘to intensify its administrative guidance.’<sup>37</sup> Another problem was technology and environment. The state in 1992 budgeted funds to double the number of industrial estates for dyeing and processing, and to expand waste water disposal facilities at existing estates.<sup>38</sup> State and association at the national level cooperated in mobilizing credit to revive and retool this subsector of the industry. KOFOTI has played a major role in screening and monitoring low interest loans to small and medium-size firms in the dyeing industry to improve technology. Equally important were cooperative efforts at the local level.

State and association have joined forces to develop industrial estates specifically designed for dyeing facilities. MOTIE, province and local governments provided funds for purchase of the real estate, building infrastructure such as roads and delivery pipes, and for design and construction of the steam generation plant and water purification systems. The Taegu Dyeing Industrial Center at Pisan or ‘DYECEN,’ now includes 112 dyeing firms on its property, with the Center providing energy, both steam and electricity, as well as clean water and waste treatment.<sup>39</sup> Each member firm contracts annually for allocation of electricity, steam, water, and waste according to a monthly schedule. In addition, dyestuffs from Germany and

Japan are purchased in a cooperative of member firms. Huge firms such as Tongkook, Kabul, and Namson operate large plants on the estate, in company with a large number of medium-size and smaller dyers. Industrial states for dyeing near Seoul and Pusan have likewise attracted large numbers of firms with their reliable provision of energy and water, and control of waste products. The government accomplishes goals of both development and environmental protection by drawing dyers away from their traditional locales along riverbanks, and promoting cost-saving joint provision of supplies.

In addition to establishing and operating the industrial estates, the state has also joined hands with industry to develop research facilities. An impressive four-story building has recently been opened on the estates to house the Korea Dyeing Technology Center or Dyetec.<sup>40</sup> Funding for Construction was provided by MOTIE (40 per cent), the city government of Taegu (35 per cent), and member firms on the estate (25 per cent). MOTIE also provides annual funding for special projects such as trips abroad to observe dyeing facilities in other nations, but the firms themselves must pay for the operating costs of the institute and for specific research projects. How will Dyetec interact with the research institutes of major firms such as Kabul, located nearby on the same estate? I learned through interviews at both Dyetec and Kabul that the former will operate a pilot plant with the latest dyeing machinery both to train operators and introduce new technology, but with an emphasis on environmental controls. Meanwhile Kabul operates their own test room for upgrading and specializing their production, and solving problems of their member plants and affiliates across the world.

What do Dyecen and Dyetec tell us of a partnership in the textile adjustment? Clearly the state remains a major player in the industry, determined to address problems of linking firms and integrating a production line. Second, the state has devolved responsibility for funding and operation to a consortium of national and local governments, and to cooperatives and associations of private enterprise. Third, the state continues to delegate planning and operation responsibilities to more independent, semi-official units, such as KOFOTI in Seoul, or the Industrial Estates in Taegu and elsewhere, including formation of a textile vision. Dyetec publishes its own 'vision' for the dyeing industry, highlighting automation and specialization of production processes. Researchers at Dyetec cited discrepancies between the larger and smaller firms in following the vision, with smaller firms lacking the capital and expertise necessary to procure and operate the more sophisticated machinery. Problems such as conflicting visions between larger and smaller firms, conflicting research priorities, and an unwillingness to share expertise or production knowhow may hamper the proposed operations of the cooperative project.

## Conclusion

A developmental state begins with the midwife role of bringing an industry or production line across subsectors to birth, and continues with husbanding resources within the line to ensure growth in domestic and foreign markets. Adjusting established, and possibly sunset, industries may well prove more challenging than nurturing sunrise industries. The state retains the role of rationalization (*hamnihwa*) or the correction of market imperfections in the long textile production line for export, but now in a new partnership with capital and its leading trade association. Sectoral corporatism in Korea can be distinguished by the joint role of state and designated interests of capital in the formation and enforcement of adjustment policy. Unlike corporatist patterns in northern Europe, Korean labor finds no major role in the partnership, nor does the partnership enjoy the support and protection of a political party such as the Social Democrats. A bipartite sectoral corporatism in textiles has developed without the oversight of any specific political party, leaving government bureaucracy and trade association more closely allied than elsewhere. A compressed development process in South Korea has left a legacy of strong but authoritarian institutions and procedures that served a rapidly developing nation well in the boom years, but may be difficult to reform in the new partnership. The prominent role of former government officials in the national and local trade associations is a case in point.

Sectoral corporatism is often found in the agrarian sector, but may also develop in labor-intensive light industries that remain significant employers and exporters. The complexity of a production line which includes widely discrepant levels of technology and automation, firms of radically different scale and function, and a market driven by fickle consumer tastes, demands patterns of coordination beyond market or individual firm. Second, the urgency of increasing exports to balance a fast-expanding demand for imported textiles and improve the nation's balance of payments only compounds the complexity. Third, coordination must now address more subtle, intractable problems of integrating a process of adjustment or upgrading across the entire line. Dyeing and finishing are a good example of the complexity, urgency, but also the difficulty of jointly improving facilities to capture the added value possible in higher quality products. A demand for coordination to keep profits growing and keep profits at home appears to cement the partnership between state and capital in textiles. The huge scale and organization of production plutocracies upstream and general trading companies downstream represent yet a fourth factor enhancing coordination. Moreover, the relatively long history and experience of teamwork within powerful trade associations such as the Spinners and

Weavers Association, or the Korean Chemical Fibers Association, and KOFOTI itself, provide a rather unique institutional basis for sectoral corporatism in textiles.

A shift at state from corporatist patron to corporatist partner in the textile industry coincides with wider processes of democratization, market liberalization, and the urgent task of industrial restructuring. Precedents of cooperation between state and capital in the industry, and the prospects of dislocation and decline versus growth and prosperity further account for the development of the new partnership. International trade regimes such as the World Trade Organization (WTO), which finds its origins in the GATT (General Agreement on Tariffs and Trade) accords governing textiles and other trades, remain particularly vigilant over local textile industries. Adjustment strategies gain the careful scrutiny of Korea's new partners in the Organization for Economic Cooperation and Development (OECD). Sectoral corporatist strategies of adjustment provide transparent, institutionalized means of state-industry cooperation, and may provide a precedent for adjustment in other Korean industries.

But apart from the organization and origins of this new partnership, a final nagging question of capital, not state, remains to be answered. Will mogul upstream producers in spinning and synthetics remain in the partnership even as centripetal forces of diversification and offshore production divert their attention from a domestic production line for export? I have addressed the question in a companion chapter and only add here that the remarkably rapid adjustment efforts to relocate production and diversify out of textiles among the mogul firms in the short space of the past four or five years have eroded their commitment to a new partnership.<sup>41</sup> The short time frame does not permit clear conclusions, but it seems obvious that major sectors of the production line will have to be reintegrated with offshore production sites. Internationalization of the industry will demand still more sophisticated networks of information and coordination.

## Notes

- 1 The phrase first appeared in Karl Moskowitz, ed., *From Patron to Partner: The Development of US-Korean Business and Trade Relations* (Lexington, MA: D.C.Heath, 1984). I cite the terms to describe state relations with capital, however, rather than bilateral ties. Moreover, I harness the terms to corporatist theory, denoting the authoritarian state in state corporatism the 'patron,' and the more coequal state of sectoral corporatism, 'partner.'
- 2 'Korea,' *Textile Horizons* (Feb.-March 1997), p. 8.
- 3 Spinners and Weavers Association of Korea (SWAK), *Cotton Textile* (Pangjok), (March-April 1996), Appendix.

- 4 'Going Fashionable,' *Textile Asia* (Dec. 1994), p. 87; 'A Government Plan to Foster Textile Industry,' *JTN Monthly* (Dec. 1995), p. 30.
- 5 'Yarn Calamity,' *JTN Monthly* (August 1993), p. 21.
- 6 Howard Pack and Larry E. Westphal, 'Industrial Strategy and Technological Change: Theory versus Reality,' *Journal of Development Economics* 22 (1986): 102.
- 7 Eun Mee Kim, 'Contradictions and Limits of a Developmental State: With Illustrations from the South Korean Case,' *Social Problems*, 40, 2 (May 1993): 228-249.
- 8 Peter Evans, *Embedded Autonomy: States and Industrial Transformations* (Princeton: Princeton University Press, 1995), pp. 77-80, 89; 'State Structures, Government-Business Relations, and Economic Transformation,' in Sylvia Maxfield and Ben Ross Schneider, eds, *Business and the State in Developing Countries* (Ithaca NY: Cornell University Press, 1997), pp. 63-87.
- 9 Byoung Doo Lee, 'Politics of Industrialization: The Textile Industry in South Korea and the Philippines,' Ph.D. diss., Northwestern University, 1992, p. 226.
- 10 D.M. Leipziger and Peter A. Petri, 'Korean Industrial Policy: Legacies of the Past and Directions for the Future,' pp. 581-619 in Lee Jay Cho and Yoonhyung Kim, eds, *Korea's Political Economy: An Industrial Perspective* (Boulder, CO: Westview, 1994).
- 11 I conducted interviews with bureau officials in July of 1996.
- 12 *JTN Monthly* (Dec. 1995): 30.
- 13 *JTN Monthly* (Sept. 1995): 30. Having registered their existing spindles with the textile association, firms then can receive authorization for new machinery on the condition that older technology is taken out of production.
- 14 Chung-in Moon, 'The Politics of Structural Adjustment in South Korea: Analytical Issues and Comparative Implications,' *Korea Journal* (autumn 1991): 54-68.
- 15 Spinners for instance must now lobby the Ministry of Finance for credits to replace the US GSM (General Sales Manger) Fund which provides soft loans for Korean firms to import US cotton. See Nak-hieon Kim, 'Spinners in a Spin,' *Textile Asia* (July 1993), p. 117-118.
- 16 Leipziger and Petri, 1994, p. 2.
- 17 World Bank, *Korea: Managing the Industrial Transition* (Washington, DC: The World Bank, 1987), pp. 33, 36; Ji-hong Kim, 'Korea: Market Adjustment in Declining Industries, but Assistance in Troubled Industries,' pp. 357-417 in Hugh Patrick and Harry Meissner, eds, *Pacific Basin Industries in Distress: Structural Adjustment and Trade Policy in the Nine Industrialized Economies* (New York: Columbia University Press, 1991); Thomas R. Howell, et al., *The Textile and Apparel Trade Crisis: A Study Prepared for the Fiber, Fabric, and Apparel Coalition for Trade [FFACT]* (Washington, DC: Dewey, Ballantine, Bushby, Palmer & Wood, 1985), p. 42.
- 18 Ji-hong Kim, 1991, p. 411.
- 19 T'ae-hyong Yi, 'Somyu sanopygye ûi naemak [The inside story of the world of the textile industry],' *Sindonga* (March 1980): 234-251. Karl Moskowitz, 'Limited Partners: Transnational Alliance between Private Sector Organizations in the US-Korea Trade Relationship,' in Karl Moskowitz, ed., *From Patron to Partner: The Development of US-Korea Business and Trade Relations* (Lexington, MA: D.C. Heath & Company, 1984), pp. 163-164.
- 20 Kim Eun Mee. 'From Dominance to Symbiosis: State and Chaebol in the Korean Economy, 1960-1985.' Ph.D. Diss, Brown University, 1987, p. 186.
- 21 Brian Toyne, Jeffrey S. Arpan, et al., *The Global Textile Industry* (London: Allen & Unwin, 1984), pp. 119-122.

- 22 The Ministry of Commerce and Industry was a predecessor agency of the contemporary Ministry of Trade, Industry, and Energy.
- 23 Interviews with KOFOTI executives in August of 1992, and again in 1993. See also Eui-Young Kim, 'Rethinking the Role of Business Interest Groups in the Political Economy of Korea: A Focus on the Textile Industry.' Paper prepared for presentation to the International Conference on 'Transformation in the Korean Peninsula toward the 21st Century: Peace, Unity and Progress,' East Lansing, Michigan, July 7–11, 1993.
- 24 'Strong Leadership for Industrial Progress,' *JTN Monthly* (May 1996), p. 73.
- 25 Korean Federation of Textile Industries, 'The Textile Industries in Korea, 1992,' (Seoul: KOFOTI, 1992), p. 3. Former Deputy Minister of Trade at MOTIE, Mr. Chang Sok-hwan was appointed vice-chairman of KOFOTI in 1996.
- 26 Karl Moskowitz, 'Limited Partners,' p. 159.
- 27 Eui-Young Kim, 'Rethinking the Role,' p. 28.
- 28 JETRO, 'A Study on Industrial Sector Development in the Kingdom of Thailand—Second Year Final Draft Report,' (June 1989).
- 29 Chungsoo Kim, 'Korea under the MFA,' *Textile Asia* (Oct. 1989), p. 137.
- 30 Ji-hong Kim, 1994, p. 186.
- 31 'Governmental Plans to Renovate Textile Industry,' *JTN Monthly* (Sept. 1995), p. 30.
- 32 'Rational Weaving,' *Textile Asia* (July 1995), p. 60.
- 33 'Government Plans to Foster Textile Industry,' *JTN Monthly* (Jan. 1995), p. 66.
- 34 'Korea's Textile Industry at the Turning Point,' *JTN Monthly* (Nov. 1990), p. 15.
- 35 Kugga Kyongjengryok Kanghaiw Mingan Wiwonhoe [Private sector association for improving national competitiveness], 'Kyongjengryok sil'tae mit kanghaiw pang'an [A survey of competitive strength and plan for improvement],' (Seoul: Kugga Kyongjengryok Kanghaiw Mingan Wiwonhoe, 1993).
- 36 Yong-hwal Ch'oi, 'Han'guk ùi jingmul sanop (Korea's weaving industry),' pp. 23–42 in MOTIE, 'The Second Meeting of the Cooperative Association of State and Private Sector on Development of New Industries: Weaving,' (Seoul: MOTIE, 1996). I attended the meeting and luncheon discussions held at the Korea Chamber of Commerce and Industry Headquarters in the Namdaemu section of Seoul, July 1, 1996.
- 37 'Into Dyeing,' *Textile Asia* (June 1990), p. 78.
- 38 'Ministerial Initiatives,' *Textile Asia* (March 1992), p. 101.
- 39 Taegu Yomsaek Kongop Kongdan [Taegu Dyeing Industrial Center], 'Dyecen Dyetec,' (Taegu: Taegu Dyeing Industrial Center, 1996); Taegu Yomsaek Kongop Kongdan [Taegu Dyeing Industrial Center], 'Hyonhwang (Current situation 1996),' (Taegu: Taegu Dyeing Industrial Center, 1996); 'Dyeing Projects,' *Textile Asia* (Nov. 1994), pp. 114–115.
- 40 Yomsaek Kisol Yonguso [Dyetec], 'Yomsaek kisol yonguso hyonhwang mit paljon kyehwoek [Dyetec current situation and development plan],' April 1996; Yomsaek Kisol Yonguso [Korea Dyeing Technology Center], 'Yomsaek Kisol Yonguso,' (Taegu: MOTIE, Taegu City Government, and the Taegu Dyeing Industrial Center, 1996).
- 41 Dennis L. McNamara, 'Corporatism and Collective Action in Textiles,' presented at a conference at the Centre for Korean Research, University of British Columbia, December 13, 1996.

## 7 From parastatal control to corporatist intermediation

### The Korean agricultural cooperative in transition

*Larry L. Burmeister*

In this chapter, the South Korean state-agricultural sector relationship is explored through analysis of changes in a pivotal agricultural sector organization, the National Agricultural Cooperative Federation (NACF or *nonghyop* in Korean). The NACF, like many organizations in South Korean society that were established during the period of bureaucratic authoritarian rule (1961–1987), bears the mark of strong state intervention. As Koo has stated, ‘Hardly anything socially consequential in South Korea is left untouched by the regulatory actions of the state, and few groups in society exist without some kind of state sanction.’<sup>1</sup> NACF organizational development exemplifies state creation and manipulation of the organizational sinews of societal sectors in South Korea.

The extent to which state intervention has generated corporatist state-sectoral relations in the South Korean political economy is an important question to address in the context of the current transition from a state capitalist, bureaucratic authoritarian regime to a more liberalized political economy-in-the-making. Following recent work by Park<sup>2</sup> and Chang,<sup>3</sup> I explore whether the corporatist model<sup>4</sup> helps us understand the changing state-NACF relationship. The NACF, a ‘peak organization’ in South Korean rural society, provides a most effective window through which to assess the agrarian corporatist question.

In this analysis, a societal sector is identified as an ‘organizational domain’—that is, a set of organizations (including regulatory state agencies) operating to provide similar products, services, and/or functions.<sup>5</sup> This societal sector/organizational focus is consistent with literature on corporatism that targets ‘meso’ level connections between state agencies and a particular sector<sup>6</sup> and that highlights the implications of such sectoral relationships for development and change within high profile organizations (e.g. peak associations) within the sector.<sup>7</sup>

A working definition of corporatism at the sectoral level is derived from Schmitter.<sup>8</sup> Corporatism is defined as a state–society relationship in which

the state grants privileged position to an organization (or an association of organizations) representing the private interests of actors in a particular sector. Benefits entailed by this special status include privileged organizational position within the sector and privileged access to state resources. In exchange for these benefits, corporatist sectoral organizations cooperate in the implementation of state policies and in the legitimization of particular regimes (regime in both the broad [type of political economy] and narrow [particular government] senses). As in much of the literature on corporatism,<sup>9</sup> the state is conceptualized in 'organizational, realist' terms.<sup>10</sup> That is, the state is a complex of organizations with ultimate jurisdictional authority over social control and social welfare within territorially delimited areas, and the state operates as a unit actor in relations with like organizational entities (other states) in the competitive interstate arena.

Prior to 1987, only the state corporatist variant of the model makes much sense in the South Korean context. Sectoral organizations, like the NACF, were often created by the state for mobilization and social control purposes. The societal corporatist variant presumes that interest associations develop autonomously within a liberal democratic polity, social conditions that were not present in post-liberation South Korea.

### **Agrarian corporatism in South Korea?**

At the sectoral level, a good argument can be made that agriculture is especially prone to corporatist institutional tendencies in capitalist political economies. Keeler, after examining state-sectoral relations in advanced industrial societies, states that 'there is a tendency...for the [agricultural] sector to achieve a level of corporatization higher than that of other sectors such as labor and business.'<sup>11</sup> Keeler attributes this tendency to the unique social and political ecology of agricultural production and the peculiar market characteristics of agricultural commodities that are present in both advanced and late developing countries.<sup>12</sup> His observation may be even more salient for late developing societies because of agriculture's strategic role as the first industry in the early industrialization phases of the latecomers.<sup>13</sup>

In the initial industrialization phase, agriculture predominates in terms of sectoral percentage of GDP and employment share. Industrialization pushes require an agrarian transformation that transfers 'surplus' production and labor out of the countryside and into the developing urban-industrial sector.<sup>14</sup> Such intersectoral resource transfers have often been effected through state initiatives that increase productivity, increase market flow of commodities, tax surpluses, etc. State intervention is often required to



generate a coordinated agricultural sector development response from a myriad of individual farms.

After agriculture is incorporated into the market, its unique economic characteristics predispose continued high levels of intervention. Intervention is activated due to the fact that supply and demand often do not balance as easily in agricultural commodity markets as in markets for other commodities. This leads to increased market volatility. Several factors are responsible. On the supply side, strategies to deal with market swings are made difficult by the fragmented structure of production (many farms producing the same commodity), the vagaries of climate, and the short storage life of some commodities. On the demand side, the inherent inelasticity of consumer demand for many raw agricultural commodities limits the potential for demand creation in the short and medium terms. In addition, producers find it difficult to differentiate many raw agricultural commodities in ways that create 'brand' loyalty. This makes competitive displacement<sup>15</sup> by lower cost producers much more threatening in agriculture than in other sectors. These characteristics of agricultural production systems and markets produce income fluctuations in rural communities that cause economic hardship. Political pressures emerge for state intervention to reduce such agricultural commodity market 'anarchy.'

Political pressures for market management are more pronounced in agriculture because numerous farms are dispersed widely within the territories of many political units. Farming's peculiar resource demands (i.e. land) account for this spatial dispersion that makes farmers as a group political constituents in many electoral districts, often giving them political leverage out of proportion to their absolute numbers. The fact that farmers are often large landowners relative to other social groups gives them added political influence.

The mix of economic and political characteristics outlined above that provide fertile soil for corporatist state-agricultural sector arrangements seems especially pronounced in East Asia. The social and agricultural ecology of monsoon rice agriculture required heavy doses of state intervention to enhance agricultural productivity and to effect resource transfers at the early stage of industrialization.<sup>16</sup> The transfer of surpluses from densely populated rural communities was continually threatened by high levels of local demand. Coordination mechanisms beyond the village were often required for improvement in production infrastructure, especially irrigation.<sup>17</sup> Following land reforms in the post-Second World War era, the latent political power of millions of property-owning, economically homogeneous smallholders magnified threats of sectoral collective action. This combination of agrarian political and economic conditions led to the emergence of dense agrobureaucracies linking the state to farmers in Japan, South Korea, and

Taiwan during the course of the twentieth-century agrarian transformation,<sup>18</sup> another example of East Asian organizational and institutional isomorphism.<sup>19</sup> At first glance, this organizational pattern suggests the crystallization of a distinctive East Asian agrarian corporatism.

However, in the South Korean case, the pre-1987 relationship between the state and the NACF does not fit the interest intermediation specifications of the corporatist model. The NACF was nearly bereft of any meaningful interest representation function or intent during the first two and a half decades of its existence. During this period, the NACF is best characterized as a parastatal organization. Mengistu defines parastatals as organizations:

[1] owned by authorities to the extent of fifty per cent or more;...[2] under the top managerial control of the owning public authorities..., including...the right to appoint top management and to formulate critical policy decisions;...[3] established for the achievement of a defined set of public purposes, which may be multidimensional in character;...[4] engaged in activities of a business character;...[5] placed under a system of public accountability; [6]...involv[ing] the basic idea of investment and returns and services.<sup>20</sup>

Items [2] through [6] in Mengistu's definition, with minor modifications, capture much of the NACF's structural characteristics in the pre-1987 period. Legally, the NACF was chartered as a member-owned organization. However, literature on the NACF supports a parastatal classification of the state-society relationship embedded in its organizational structure and activities.<sup>21</sup>

While the state-NACF relationship does not conform to corporatist specifications in the bureaucratic-authoritarian era, embedded in this state-NACF-farmer relationship are socioeconomic predispositions toward corporatization in the present regime transition period. Accordingly, this is a case study of what happens to parastatal organizations like the NACF, organizations that litter the social landscape of what used to be called the 'second' and 'third' worlds, in the post-authoritarian period. Stark emphasizes the 'path dependence' of post-authoritarian/post-command economy social transformations.<sup>22</sup> New social structures (organizations and institutions) are fashioned from old social foundations, rather than arising newly formed from ideal prototypes. Those who predict clean neoliberal privatization and civilianization outcomes in the present historical conjuncture, based on a 'designer liberal capitalist' model<sup>23</sup> that assumes neat distinctions between the spheres of state and civil society, will likely be disappointed.

In the South Korea case, NACF reforms in response to national and international political and economic liberalization pressures are conditioned by past organizational development and state-sectoral intervention. The current reform trajectory suggests a path-dependent transition from parastatal control to corporatist intermediation in the state-NACF relationship. In order to understand this corporatization process at work, it is necessary first to examine the social dynamics of NACF parastatal emergence and consolidation.

### **The NACF as parastatal agency**

The NACF was established in its present legal form in 1961 by the merger of the moribund village agricultural cooperatives with the relatively successful Korea Agricultural Bank.<sup>24</sup> These organizations were successors of similar agricultural marketing, technology diffusion, and credit organizations established under Japanese colonial rule.<sup>25</sup> The colonial agrobureaucracy was created to increase agricultural productivity and to integrate the Korean agricultural economy into a wider regional East Asian economic division of labor to support Japanese industrialization and military objectives.<sup>26</sup>

The merger creating the new agricultural cooperative system was promulgated by the military government under emergency law decree shortly after the 1961 coup that brought Park Chung Hee to power. The creation of the NACF represents an early policy response by the Park regime to a festering agricultural sector problem—flagging aggregate productivity. The legal genesis of the NACF under ‘emergency’ military government authority, its organizational roots in the colonial agrobureaucracy, and its establishment at the same time as the complete abrogation of local government autonomy signaled how the state intended to bring rural people into the national development project. Farmers were, in essence, drafted to support strategic industrialization initiatives.<sup>27</sup>

The term cooperative, as it is widely understood in a political economy sense,<sup>28</sup> is certainly a misleading organizational nomenclature for the NACF. Unlike a real cooperative, this organization’s formation was not anchored in any grassroots political action or economic mobilization effort by farmer members. The NACF was established, at least in a *de facto* way, as an implementation arm of other central government agencies, especially the Ministry of Agriculture, Forestry, and Fisheries (MAFF). The ‘federation’ was organized as a hierarchical bureaucracy with lower level branch units (primary cooperatives or *taneui chohap*) under the managerial authority of the central bureau (*chunganghoe*). Local level cooperatives (the primary cooperatives) were not involved in establishing an umbrella association

(e.g. a federation) to represent their interests in national political and economic decision-making arenas. In fact, the membership base had no role in establishing rules for the formation and dissolution of local level cooperatives, nor did they engage in much meaningful routinized collective decision-making regarding local cooperative leadership selection or business management.

An elaborate organizational interlock subordinated the NACF to the MAFF and other state agencies. The highest NACF executives were appointed by the South Korean president following MAFF recommendations. Representatives of state agencies most involved in directing NACF activities formed an important decision-making bloc on the Board of Directors. These structural characteristics of the NACF fit items [2] and [5] of Mengistu's definition of parastatals.

Coincidence with items [3] and [4] in Mengistu's definition, relating to business activities and the policy rationale for parastatals, is revealed in the early involvement of the NACF in the state's agricultural development initiatives. Initial development efforts consisted mainly of infrastructural improvement, especially the construction and upgrading of irrigation facilities. The maximization of yield on irrigated paddy depended, of course, on complementary increases in fertilizer application. The establishment of the NACF can be viewed as an infrastructural component (albeit organizational) of efforts to improve physical production conditions. Two and a half million farm households needed to be supplied with more fertilizer if aggregate production was to increase significantly. This became the first business priority for the NACF.

South Korea was totally reliant on fertilizer imports throughout the 1950s. One of the Park regime's first major import substitution industrialization initiatives was to complete a project started in 1960 (before the coup) to establish a domestic fertilizer industry.<sup>29</sup> Joint venture contracts with American firms provided the technology and capital base, and by the end of the 1960s a substantial domestic fertilizer industry had been created.

In fashioning this state-foreign firm partnership, the state assumed full responsibility for the sale and marketing of domestically produced fertilizer. In order to accomplish this, the NACF was delegated as the sole buying agent for all the domestic fertilizer production and the sole distribution outlet for sales of fertilizer to farmers with all prices fixed by the state. Prices were set to insure that agreed-upon profit margins for the American partner were maintained. The state's authorization of the NACF to handle the fertilizer business illustrates the NACF's parastatal role as an organizational intermediary implementing state policies.

From a narrow organizational growth perspective, the NACF also benefited from this arrangement. State-delegated responsibilities for handling

the fertilizer business gave the organization access to a very important resource. In order to insure access to an income-increasing agroinput that had been in chronic short supply throughout the post-Second World War period, farm households had to join the cooperative. This accounts for the NACF's high membership rate (over 90 per cent of all farm households have belonged since the NACF's establishment).

More aggressive agricultural development policies were initiated in the 1970s with the NACF again playing a major role in their implementation. When the wage goods import bill threatened to become a pressing constraint on industrialization efforts by the end of the 1960s, state agents organized a frenetic campaign to develop and diffuse high-yield rice varieties (the Tongil variety and its derivatives) to farmers in an effort to achieve rice self-sufficiency as quickly as possible.<sup>30</sup> Due to the less desirable taste qualities of the Tongil types, both a producer and final consumer market had to be guaranteed in order to insure farmer adoption. This was accomplished through NACF farmgate purchase and consumer distribution channels. NACF support for the state-orchestrated green revolution initiative was evidenced by a substantial increase in the percentage of the total rice crop marketed through NACF channels—from 9 per cent in 1970 to 23 per cent by the end of the decade.<sup>31</sup> Increased NACF purchases consisted almost entirely of Tongil-type varietal production.

In tandem with the green revolution push, a more encompassing economic and political mobilization of South Korean rural society was organized under the banner of the Saemaul Undong (New Village Movement). This campaign, one of the highest policy priorities of President Park and his staff in the 1970s, was designed as a village self-help program to improve village living conditions and village infrastructure and to foster higher productivity agriculture.<sup>32</sup> A combination of state-subsidized inputs, ideological manipulation, and mobilization of 'free' village labor was deployed to meet program targets. The NACF, in concert with other local administrative agencies, was enlisted to support the Saemaul Undong campaign.<sup>33</sup>

The deployment of the NACF in the service of the interconnected green revolution and Saemaul Undong efforts is illustrated by personnel growth and the distribution of personnel in the organization as shown in Table 7.1. NACF personnel doubled during the short period from 1970 to 1975 when these initiatives commanded the attention of the state bureaucracy. These personnel increases were concentrated at the primary cooperative level, the lowest unit of the organization in direct operational contact with farmer members. (Some of this increase is also explained by state authorization for primary cooperatives to establish mutual savings banks.)

Personnel growth at the primary cooperative level was combined with administrative consolidation of the primary cooperatives from village-based

Table 7.1 NACF employees, selected years, 1970–1995

Year	Total number of employees (T)	Primary cooperative employees (P)	P/T
1970	15,901	4,585	0.29
1971	18,110	6,280	0.35
1972	21,392	9,428	0.44
1973	25,376	14,292	0.54
1974	32,249	19,067	0.59
1975	34,236	20,270	0.59
1976	35,393	21,942	0.62
1977	40,154	24,248	0.60
1978	42,049	25,664	0.61
1979	41,674	25,291	0.61
1980	42,625	26,064	0.61
1981	44,318	28,495	0.64
1982	39,588*	27,617	0.70
1983	39,501	27,871	0.71
1984	40,678	28,673	0.70
1985	42,575	30,291	0.71
1986	44,600	31,786	0.71
1987	46,657	33,188	0.71
1990	57,749	39,683	0.69
1995	69,984	50,191	0.72

Source: *NACF Yearbook* (various years).

Note

\* A separate livestock cooperative (*chuk hyop*) was split off from the NACF at this time (Steinberg, 1994) resulting in a temporary reduction in the number of NACF employees.

to township-based organizational units. The township (*myon*) is not a natural social unit like the village, but was created as a local government administrative jurisdiction during the Japanese colonial period. The consolidation was especially significant since it, in a sense, 'seconded' the primary cooperatives to local government units to provide staff support for the rice self-sufficiency and Saemaul Undong campaigns. Saemaul Undong bureaux were grafted onto the NACF organizational structure to insure administrative support for the campaign's projects. At this point in time, NACF activities were essential components of an all-encompassing state-directed rural mobilization drive that consumed significant amounts of organizational energy.<sup>34</sup>

Increases in farm enterprise productivity and improvements in rural housing and other physical infrastructure required capital investments that most farm households could only make by borrowing funds. From the outset, the state granted the NACF a preferential market position in rural

banking services amounting to a near monopoly. Initially, the NACF banking system consisted of branch banks under federation auspices located in cities, large provincial towns, and county seats. Deposits made in these banks provided capital for agricultural loans. In 1972, the primary cooperatives were legally empowered to establish mutual savings banks to service farmers who were now involved in the cash economy. With the ongoing commercialization of farming and the rural development initiatives of the 1970s, financial services became an increasingly important part of NACF business activities.

During the 1980s, agricultural sector adjustment problems, both economic and social, replaced the production problem (foodgrain self-sufficiency) as the primary sectoral policy concern. On the economic side, widening income differentials between rural and urban households reappeared causing political concerns for the regime. The uncompetitive position of South Korean agriculture in the global economy became more serious with the institutionalization of trade liberalization norms in the GATT negotiations.<sup>35</sup> The resolution of these economic problems required structural changes in farm enterprises—e.g. the expansion of operational size; mechanization; specialization in high value, income elastic agricultural products. On the social side, consumerism and ideas about adequate educational attainment for one's children diffused from urban to rural areas, enhancing feelings of relative deprivation among rural people whose incomes did not support such expenditures. Infusions of capital were needed to address both the economic and social dimensions of the sectoral adjustment problem.

The NACF, through its financial service activities, responded to the shift from productionist to adjustment policy priorities within the state bureaucracy. This shift is revealed clearly in organizational changes in the functional distribution of NACF business activities and employee job assignments. As shown in Table 7.2, in 1976 agroinput supply and marketing activities accounted for approximately three-quarters of business turnover in the primary cooperatives, an indication of the importance of the production problem at that time. However, by 1988 this percentage had dropped to about one-third. Financial services and consumer sales, on the other hand, rose from approximately one-fifth of total business turnover in 1976 to approximately two-thirds in 1988. Table 7.3 reveals a commensurate reallocation of personnel, with a higher percentage of employees working in banking in later years.

In the NACF's credit operations, the mixing of funds provided by the state with funds raised commercially allows the NACF to offer loans to farmers ('policy loans') at interest rates below those charged by other institutional lenders and by private moneylenders. I argue that the provision of subsidized loans has been the state's most consistent policy response to the serious

Table 7.2 Business transactions of the primary cooperatives, selected years, 1976–1995 (Unit: Billion won (current value/percentage))

Activity	Year						
	1976	1978	1980	1982	1985	1990	1995
Deposits received <sup>1</sup>	66 (10.4)	150 (12.8)	234 (12.4)	408 (17.1)	504 (16.0)	2567 (19.6)	3997 (15.9)
Loans outstanding <sup>2</sup>	32 (5.1)	182 (15.6)	412 (21.9)	566 (23.7)	503 (16.0)	5306 (40.5)	8535 (33.9)
Purchasing <sup>3</sup>	241 (37.8)	370 (31.7)	562 (29.9)	723 (30.2)	612 (19.4)	880 (6.7)	2189 (8.7)
Consumer sales <sup>4</sup>	26 (4.0)	55 (4.7)	95 (5.1)	131 (5.5)	391 (12.4)	703 (5.4)	1490 (5.9)
Marketing <sup>5</sup>	228 (35.8)	276 (23.7)	426 (22.7)	463 (19.4)	910 (28.8)	2659 (20.3)	6475 (19.8)
Insurance <sup>6</sup>	31 (4.9)	111 (9.5)	122 (6.5)	48 (2.0)	186 (5.9)	506 (3.9)	1658 (6.6)
Other	13 (2.0)	24 (2.0)	31 (1.7)	52 (2.2)	50 (1.6)	475 (3.6)	851 (3.4)
<b>TOTAL</b>	<b>637</b>	<b>1166</b>	<b>1882</b>	<b>2390</b>	<b>3156</b>	<b>13096</b>	<b>25194</b>
Percentage AGR GDP	20.1	23.3	34.1	30.9	30.5	84.8	94.2

Source: *NACF Yearbook* (various years).

Notes

- 1 Mutual savings deposits for a particular year calculated as difference between total savings portfolio of that year minus total for the previous year.
- 2 Loans outstanding calculated as above.
- 3 Fertilizer and other agroinputs sold through primary cooperatives.
- 4 Consumer goods sold through primary cooperative chain stores.
- 5 Value of agricultural commodities marketed through the primary cooperatives.
- 6 Insurance sales calculated as 1 and 2 above.

adjustment problems facing Korean agriculture in the 1980s and 1990s. While these lending programs have been closely tied to state policy initiatives, thus reducing any discretionary powers of local cooperative staff and farmer members in loan allocation decisions,<sup>36</sup> the programs offer ‘cheap’ money and the loans are more fungible than government policy directives suggest.<sup>37</sup> The demand for this subsidized credit is reflected in the growing indebtedness of farm households to the NACF as shown in Table 7.4.

The supply of subsidized credit through NACF channels illustrates the institutionalization of a clientelist political economy of exchange between the state, the NACF, and farmers in the bureaucratic-authoritarian period.<sup>38</sup> Policy loans were used as carrots to mobilize rural support for strategic development



*Table 7.3* Job classification of NACF employees, selected years, 1975–1992  
(Unit: person/percentage)

<i>Job classification</i>	<i>Year</i>			
	<i>1975</i>	<i>1980</i>	<i>1985</i>	<i>1992</i>
Banking	11,988 (37.6)	15,177 (39.5)	18,174 (42.9)	29,233 (44.5)
Economic services*	11,538 (36.1)	13,098 (34.1)	13,106 (30.9)	21,213 (32.2)
Guidance/ administration	8,392 (26.3)	10,109 (26.3)	11,047 (26.1)	15,379 (23.3)
TOTAL	31,918	38,384	42,327	65,825

Source: NACF (internal documents).

Note: \*Marketing and agroinput supply.

initiatives and to try to get out the vote for government candidates/positions in legitimating elections or referendums. An important category of NACF employees is classified as 'guidance/administration' in Table 7.3 above. While the putative job of these employees is to provide technical assistance to farmer members, they have been deployed as political operatives periodically in election campaigns and other state mobilization efforts.

A glance at the NACF loan data presented in Table 7.5 shows how this exchange relationship works at critical political junctures. In 1987, the historic presidential election year, policy loans (loans with the most favorable interest rates) increased by a large margin (56 per cent) from loan levels the year before. This data suggests that increased loans were channeled through the NACF by the state in an effort to exchange economic benefits for sectoral political support in classic patron-client fashion to try to insure the election of the government candidate, Roh Tae Woo. Hahm describes how government attempts to influence farmers' political preferences through special loan programs in 1987 were quite transparent at the village level.<sup>39</sup>

Sectoral clientelism is rooted socially in personalistic farmer-primary cooperative staff relations. Historically, the dictates of the state, passed down through administrative channels, have been moderated through local-level social structures.<sup>40</sup> Programs imposed from the center are 'adjusted' in the course of discussions between the village leaders (who attain their positions through consensus decision-making processes that incorporate nearly all village household heads) and local officials (e.g. primary cooperative staff) who are usually stationed in their hometown areas and thus are tied into local social networks. While, in practice, clientelistic social relations often

Table 7.4 Average farm household debt structure, selected years, 1983–1995  
(Unit: 1,000 won/percentage)

Year	Total debt	Cooperative debt/ total	Debt/household income
1983	1,285	64.0	27.3
1984	1,784	64.3	33.8
1985	2,024	66.0	36.3
1986	2,192	65.5	39.0
1987	2,390	71.9	39.3
1988	3,131	80.2	38.5
1989	3,899	78.7	41.3
1990	4,734	81.5	42.9
1995	9,163	80.4	42.0

Source: MAFF Yearbook (various years).

favor some farmers over others,<sup>41</sup> local agrobureaucratic entities like the primary cooperatives are, none the less, humanized by their embeddedness in a taken-for-granted local social matrix.

In its parastatal form, the state-NACF-farmer relationship put the NACF, when viewed as an 'organization-for-itself,' in an awkward position *vis-à-vis* its farmer members. When state policies self-destructed due to inefficient allocation of resources, lack of commitment, and/or corruption, the NACF was often left shouldering the blame. Organizationally embarrassing instances of this occurred in the sweet potato contract purchase (late 1960s) and livestock promotion (early 1980s) debacles<sup>42</sup> and have continued to hamper NACF attempts to intervene in smoothing out swings in volatile vegetable and specialty crop markets. In such cases, the NACF, acting as an agent of the state, has promoted state-directed production schemes but state authorities have reneged on promises to purchase output or to stabilize market prices. The failure of the state to back up such NACF promotion activities left some farmer members who participated in the schemes with substantial financial losses and eroded NACF organizational credibility.

An explanation of the NACF's emergence and consolidation as a parastatal agency during the bureaucratic authoritarian era is anchored in agriculture's role in the state's dual import substitution-export promotion development strategy.<sup>43</sup> A homogeneous minifarm sector without political voice was harnessed to high profile import substitution projects—e.g. the establishment of a domestic petrochemical industry and foodgrain self-sufficiency—through a clientelistic process with the NACF as the state's local broker. From a political economy point of view, this relationship between the state, the NACF, and farmers embodied, as argued by Kim,<sup>44</sup>

*Table 7.5* NACF loans by type, selected years, 1971–1988 (Unit: 100 million won/percentage)

<i>Year</i>	<i>Total loans (T)</i>	<i>Policy loans (P)</i>	<i>Commercial loans</i>	<i>Mutual savings loans</i>	<i>P/T</i>
1971	835	550	246	39	0.66
1975	1,783	1,310	281	192	0.73
1978	6,445	3,913	997	1,535	0.60
1979	7,984	4,833	1,063	2,088	0.61
1980	10,964	6,743	1,109	3,112	0.62
1981	12,804	7,581	1,400	3,823	0.59
1982	15,382	8,144	1,361	5,877	0.53
1983	14,190	9,395	1,109	3,686	0.66
1984	16,020	10,182	1,276	4,562	0.64
1985	20,892	12,483	1,228	6,566	0.60
1986	22,458	14,075	1,839	6,544	0.63
1987	34,849	21,972	2,014	10,222	0.63
1988	37,232	21,249	2,343	12,381	0.57

Sources: MAFF, *Agricultural Financing Memorandum* (1982; 1986); NACF, *Financing Memorandum of the NACF* (1989).

a dual accumulation/legitimization logic. In the next section, I show how the breakdown of the political and economic foundations of the state-NACF parastatal arrangement has resulted in reforms in the NACF that signal changing state-society relationships in the countryside.

### **Regime change and NACF reforms**

It should be evident from the foregoing discussion of the structure and activities of the NACF that this organization is a major actor in the Korean rural political economy. The size of primary cooperative business activities in relationship to agricultural GDP is shown in Table 7.2. The NACF rivals some of Korea's largest business conglomerates in sales turnover. In terms of organizational reach, primary cooperative branches are located in every rural township jurisdiction. Farmer members must interact with primary cooperative staff to obtain institutional credit, to market crops purchased by government agencies, and to purchase essential agroinputs.

Despite this octopus-like economic presence, the NACF's status as a parastatal arm of the MAFF and other state agencies had changed little in its first twenty-five years of existence. However, Roh Tae Woo's election to the presidency in the historic December, 1987 election marked a turning point in state-society relations in South Korea.<sup>45</sup> As Roh began to institute

regime-altering programs of economic and political liberalization, the parastatal state-NACF relationship became increasingly problematic. Powerful agencies within the state bureaucracy, especially the influential Economic Planning Board, viewed the NACF as a relic of an outmoded state capitalist economic apparatus that needed to be dismantled. Many NACF officials were dissatisfied with the status quo, too, as they chafed at their lack of autonomy. They resented the fact that most important business decisions were made in the various oversight ministries and agencies. Farmer members, also, had good reason to complain about the current situation. They had never been privy to institutionalized channels of influence in selecting primary cooperative executives and in making business decisions. While this was a 'soft authoritarianism' as practiced at the local level,<sup>46</sup> any possibilities for real interest representation through the NACF were foreclosed by the organization's instrumental position as an implementation agency within the state administrative hierarchy. Thus, widespread dissatisfaction from all sides of the state-NACF-farmer relationship presaged change.

As numerous critics pointed out, the legal foundations of the NACF posed fundamental legitimacy problems for the organization in a more open political environment.<sup>47</sup> The Basic Agricultural Cooperative Law (*nonghyop popan*), promulgated under emergency military rule, did not institutionalize farmer member or primary cooperative rights of participatory involvement in NACF activities. In the wake of the June, 1987 democracy declaration, it became apparent to both state agents and cooperative officials that some political face-saving would have to occur in the form of revisions in the cooperative law. NACF officials, although anxious about the pitfalls of implementing 'democracy from the top,' hoped to fashion reforms that would enhance its political legitimacy among farmer members and result in more independence from the state; state agents saw reform as setting an important precedent for politically safe local autonomy measures in the future.

As a result of society-wide democratization pressures, the elections of primary cooperative presidents by farmer members and of the federation president by farmer-elected primary cooperative presidents were authorized in a conservative amended cooperative law written by the NACF legal counsel in consultation with other state legal officials.<sup>48</sup> The revised law was ratified by the National Assembly in late 1988 after a series of public hearings earlier in the summer. It provided for a tightly controlled, 'nonpartisan' election format. In an election process where political party participation was prohibited and campaigning strictly regulated, obvious advantage accrued to incumbent presidents or other cooperative employees. This was borne out in election results in the 1,400-plus primary cooperative

presidential elections that occurred from March, 1989 through March, 1990 and in the contest for the federation president held in April, 1990.<sup>49</sup>

In addition to electoral reforms, the revised law included provisions that, on paper at least, gave NACF officials more power over organizational operations.<sup>50</sup> In particular, the system of governmental oversight of NACF activities was changed to a *post facto* reporting system, where, in principle, the NACF did not have to solicit prior government input in policymaking decisions. However, because the NACF is still very dependent on critical resources from the state—in particular, government funds for subsidized loan programs—there remains a high degree of state intervention in its business activities.

The most immediate impact of the reforms in terms of organizational behavior was in the NACF's active involvement in agricultural politics. The election process forced candidates for the primary cooperative and federation presidencies to proclaim publicly agricultural policy positions that reflected farmer member preferences—i.e. high rice prices and agricultural protectionism. For the first time in its history, the NACF as an organization proclaimed policy stances that were counter to policies articulated by state officials.

At this juncture, an issue of primary concern to farmers was the Roh government's reaction to external pressures (particularly from the United States) for continued agricultural sector trade liberalization. Earlier, selective market openings produced sporadic, violent anti-government farmer protests. An especially noteworthy demonstration occurred in front of the National Assembly in February, 1989, just prior to the start of the primary cooperative presidential elections. In response to farmer unrest, candidates for the cooperative presidencies campaigned aggressively against the dismantling of existing protectionist barriers to agricultural imports to project a staunch pro-farmer image.

The anti-import policy campaign remained firmly in place after the elections. In order to show that the NACF's articulation of farmers' interests was not just a short-term, expedient political reaction to election exigencies, representatives of the newly elected primary cooperative presidents met with federation staff to formulate a proactive organizational response to the agricultural import problem. In the summer of 1990, this working group designed a nationwide 'Support Our Agricultural Products' (*uri nongsanmul aeyong*) campaign.<sup>51</sup> This ongoing initiative lauds the nutritional and cultural value of consuming 'pure' Korean agricultural products. Literature distributed during the early stages of the campaign attacked the quality and safety of imported food in addition to portraying Korean agricultural products in a favorable light.

For the first time, the NACF acted as an autonomous agent in the yearly rice price bargaining negotiations. Given the relative decline in farm household incomes *vis-à-vis* urban reference groups, and in view of the strategic importance of the rice crop for average farm household income, the government's yearly rice price decision has been a key political barometer in South Korea for two decades. During the 1980s, the Chun regime kept rice price increases in check for several years, an indication that the ruling party viewed rural political support as less problematic (and perhaps less important) than previously. Angry farm protests during the latter half of the decade reenergized this policy debate. In 1990, the NACF, during the course of intra-state negotiations over rice price recommendations to be sent to the National Assembly for ratification, argued publicly for a much higher rice price rise (17.7 per cent) than the MAFF (10.5 per cent), which has traditionally favored higher prices than other state agencies that routinely participate in the price setting decision (EPB, Ministry of Finance etc.).<sup>52</sup> Previously, the NACF had played no independent public role in this political negotiation.

These actions marked the initial attempt of the NACF to transform itself into a bona fide interest group representing farmer members, a move that signified an important organizational turning point from parastatal subservience toward corporatist intermediation in relations with the state. This is not a smooth road for NACF officials, especially those at the federation level. In the wake of staking out pro-farmer, anti-government positions in the national political arena, the NACF aroused the ire of state officials who are trying to steer South Korea into conformity with the post-Uruguay Round international trade regime. Direct attacks by elected NACF officials against government policy initiatives jeopardize continued access to organizational resources that are critical to membership retention (e.g. policy loans) and financial well-being (e.g. preferential treatment in the banking sector). Yet NACF leaders must articulate public positions that respond to farmer member sentiments in order to build political credibility among a membership that remains to be convinced that the organization is serving their interests.

The NACF's sensitive position surfaced dramatically in the wake of corruption charges brought against the elected federation president, Han Ho-sun in early 1994.<sup>53</sup> Government prosecutors charged Han with illegally diverting NACF money to the political slush funds of National Assembly members and raking off illegal commissions in NACF business transactions (the most important charges). Subsequently, he was convicted and sentenced to prison.

This charge was brought against Han shortly before the scheduled election for federation president, an office that Han was favored to retain.

While all the particulars in the case are difficult to sort out, it was conjectured in the South Korean press that Han's offenses, especially the political contributions, occur routinely in South Korean politics and that Han's prosecution was a payback for his strident anti-government stands on such issues as rice market opening, rice price hikes, the negotiating strategy in the GATT talks, and the Kim Young Sam administration's 'New Agricultural Policy' (competitive restructuring) initiative.<sup>54</sup>

Clearly, the Han case has been a setback in the NACF's political rehabilitation efforts. State officials used this period of organizational embarrassment to promote once again, through proposed amendments to the cooperative law, organizational restructuring of the NACF. The amendments tendered specified the following important organizational changes: (1) the present NACF organization would be divided into two independent business entities, an agricultural bank and an economic services (agroinput supply and marketing) cooperative; (2) organizational specialization would be accompanied by a reduction in the power of elected NACF officials (federation and primary cooperative presidents) over business operations, with professional managers in charge of many business functions previously under the jurisdiction of elected presidents; (3) indirect election procedures would be instituted for primary cooperative presidents; and (4) existing primary cooperatives would be merged into larger units.<sup>55</sup> The proposed amendments promoted agribusiness rationalization and depoliticization of NACF operations. In an era of liberalization of banking regulations and agricultural market opening, state officials argued that the NACF must transform itself into more efficient, specialized competitive business enterprises—a metamorphosis akin to the evolution of many agricultural cooperatives in the West (in particular the United States) into *de facto* joint-stock agribusiness corporations.

The Han case also fuelled renewed attacks against the NACF by dissident farm organizations that have actively opposed state agricultural policies over the past three decades. These organizations label the NACF a corrupt, captive organization of the government and non-agricultural interests. They point to continued organizational growth (see Table 7.3) in the midst of decreasing numbers of farm households as evidence that the NACF is primarily an 'organization-for-itself,' looking after its own employees first and farmers later. Dissident farm groups propose reforms (which sometimes include the dissolution of the NACF) that would result in a more politicized agricultural cooperative with an authentic, independent voice.

These attacks against the NACF tend to cancel each other out. State officials propose an agribusiness transformation aimed at integrating the agricultural sector into the international economy. Dissident farm groups advocate a hard-line farmers' union that defends stridently agricultural

protectionism. A divided opposition provides the NACF political space within which to position itself as a second best alternative for both farmers and state officials in a very turbulent rural/agricultural sector environment. In the next section, I analyze the socioeconomic characteristics of the sectoral environment that predispose continuing corporatization, albeit in fits and starts.

### **The social foundations of corporatization in the post-authoritarian period**

The social foundations of the corporatization process in the South Korean agricultural sector lie in power dependence relations that enmesh the state, the NACF, and farmers in positive-sum political and economic exchanges<sup>56</sup> that have clientelistic dimensions.<sup>57</sup> If one treats each principal in the relationship as an actor, power dependence means that each actor obtains political and/or economic resources through the relationship that are important for goal attainment (and maybe survival) within the sectoral environment—e.g. agricultural policy implementation and political support for state agencies; membership retention and business growth for the NACF; and satisfactory production outcomes/income attainment for individual farm households and political empowerment for farmers as a group. In organization theory terms, the social structural dimensions of the agricultural sector that have created this triangular power dependency relationship are basically technical and institutional in nature.<sup>58</sup> The technical dimension refers to production conditions (homogeneity in agroecological conditions, market position, and farm enterprise organization); the institutional dimension refers to the legacies of land reform, state intervention, and protectionism that constitute the legal and policy framework that has produced the present minifarm structure.<sup>59</sup>

Power dependence relations predisposing corporatization are rooted in the following sectoral conditions: (1) adjustment problems within the rural/agricultural sector resulting from domestic economic development outcomes and domestic and international regime change;<sup>60</sup> (2) the present organizational capacity of the NACF *vis-à-vis* potential organizational competitors resulting from the past state-NACF-farmer relationship and broader state-society relationships; (3) in the context of (1) above, heightened pressures on state agencies (the MAFF, in particular) to reorganize the agricultural sector combined with inherent difficulties in dealing with one and a half million minifarm enterprises in any structural adjustment program; and (4) farmers' dependence on outside financial assistance and infrastructural support in any major sectoral reorganization effort. The



broader environmental influences noted in (1) will be assessed during the course of explicit discussions of power dependency ties linking the three actors—the state, the NACF, and farmers—in a web of mutual resource dependency. These ties, coupled with the extant organizational capacity of the focal actor, the NACF, explain the corporatization dynamics of state-agricultural sector adaptation in contemporary South Korea.

Farmer dependence on state-NACF resource channels is rooted in serious economic adjustment problems confronting most South Korean farm enterprises. Farm enterprise restructuring (e.g. increasing operational size, technological upgrading, further commodity specialization) requires extra-household capital that is most accessible at present through NACF channels. As long as NACF membership provides access to loans to farmer members on more favorable terms than other institutional or private alternatives, farm households will continue to retain their NACF affiliation. Furthermore, given the state's past delegation of the agroinput supply business to the NACF and the NACF's important role in marketing, farmers remain dependent on the organization for a range of economic services that will be hard to devolve to the private sector in ways that guarantee comprehensive rural coverage.

On the political representation front, there are few alternative organizations with power resources for farmers to turn to. Past political exclusion has truncated the population of interest-group actors in the agricultural sector. While dissident organizations exist, their organizational structures often do not penetrate deeply into local communities, their leadership is not indigenous to the countryside and/or the occupation of farming,<sup>61</sup> and they cannot provide tangible resources that compete with those offered by the NACF. The relative lack of commodity specialization in South Korean agriculture, resulting from agroecological and market conditions, means that specialized commodity groups are small in number, regionally dispersed, and unable to pose a credible alternative threat to the NACF at the national level. This does not mean that these alternative organizations are not important. In a liberalized political environment, they are likely to become agents for change in rural society, prodding the NACF to reassess further how it integrates farmer members into decision making and how NACF business activities impact farmer member economic success. But these competing organizations are not strong enough to dislodge the NACF from its present peak organizational position in the South Korean rural political economy.

As Bianchi argues,<sup>62</sup> in cases where state-created organizations like the NACF begin to assert their independence, the state may counter by setting up competing organizations, taking away organizational resources and prerogatives etc. Recently, this has happened to a limited extent in South

Korea with a state-funded loan program set up to encourage farm enterprise expansion through land purchase. Rather than channel subsidized loans for land purchase through existing NACF machinery, as the state has done with most agricultural sector 'policy loans,' another parastatal agency, the Agriculture and Fisheries Development Corporation (*nongochon kaebal kongsa*), was established to administer this program. The implication of this end run around the NACF is that state officials did not want to provide the organization with more resources at a time when it was increasing its organizational independence from state administrative dictates.

In spite of this action to deny the NACF access to more resources, state officials now have little choice but to work with the NACF in the implementation of structural adjustment policies. Again, this situation follows from past state-NACF relations that constrain what is possible at present. The state is faced with implementing sectoral adjustment programs impacting numerous smallholder units. Only the NACF has the organizational structure capable of delivering a wide array of services in support of agricultural restructuring programs to minifarm enterprises throughout the country. In the current economic and political liberalization climate, formation of more parastatal replacements will be difficult. And no other politically safe nationwide interest group exists that could be conscripted as a NACF substitute or competitor.

State proclivities toward corporatization are also projected based on growing differentiation within the state apparatus. Earlier in the bureaucratic authoritarian period, it made some sense to treat the South Korean state as a unitary actor when discussing important development initiatives and policies. The growing complexity of the economy, coupled with post-authoritarian political norms that encourage more open decision-making processes, make it now more difficult for the South Korean state to act in unison. As transparent policy making is institutionalized, agencies and ministries will come into direct public conflict over policy objectives and resource allocations within the state apparatus, and are likely to seek out 'clients' in civil society that provide political support for their activities. The MAFF, in particular, is losing relative power within the state apparatus as a result of the declining importance of agriculture in the national economy and strong challenges, domestic and international, to previous modes of bureaucratic control of the agricultural sector. While the NACF has sparred recently with the MAFF over policy independence, the MAFF is likely in the future to view the NACF as an organization that is becoming more socially embedded in rural communities (due to recent organizational reforms) making it a useful 'client' that needs to be courted in struggles over resource allocations and policy directions within the state.

As mentioned earlier, the NACF itself remains dependent upon the state for critical resources that maintain what Cawson terms organizational logics of 'membership' and 'influence.'<sup>63</sup> In 'logic of membership' terms, corporatist accommodations are beneficial from the organizational standpoint to the degree that membership benefits are provided that would not be available if the organization did not possess its privileged position *vis-à-vis* the state. The most important resources currently available as a result of state-NACF linkages are the subsidized policy loans. These loans are available on a yearly basis to all member farm households in the form of short-term operating loans (*yongnong chagum*). For those farm households that qualify, periodic access to other specialized loan programs for longer-term projects enhance NACF membership benefits.

In 'logic of influence' terms, corporatist arrangements provide the organization with privileges that enable it to maintain an advantage over competitors. In the NACF case, state banking regulations have provided the organization with monopoly-like privileges that have enabled it to raise funds more easily than competing financial institutions in urban and rural areas. This capital has been used to supplement state allocations to the 'policy loan' pool thus expanding the amount of subsidized loans available. In addition, this capital base can provide financial backing for other NACF marketing and business initiatives that are of potential economic benefit to farmer members.

Of course, only the support of farmer members provides the political legitimacy and political mobilization resources necessary to sustain the organization in inevitable future battles with hostile elements of the state bureaucracy and competing organizations. I have noted NACF attempts at the federation level to move toward agricultural policy positions that resonate with farmer member concerns. The structural homogeneity of South Korean agriculture makes it relatively easy for the NACF to identify policy choices that correspond to the preferences of a vast majority of its farmer members. More aggressive moves are also evident on the economic front. The 'Support Our Agricultural Products' campaign continues. In addition, the NACF recently purchased the controlling interest in the domestic fertilizer industry, preempting possible private sector competitors. Attempts are also being made to enter the food-processing business, the subsector of the agrofood industry that some analysts claim has been a very profitable area heretofore reserved for big business groups. The NACF is trying to use these new business ventures, initiated by its own managers, to position itself more forcefully as a real cooperative exercising bargaining power in the marketplace to improve the economic position of farmer members.

At the primary cooperative level, the earlier reforms have made it more difficult politically for the state to reorganize and depoliticize these locallevel

organizations. In the context of the slow movement toward a local autonomy (local self-government) system, the elected primary cooperative presidents have become key players in local politics. At present, civil society in rural areas is weak due to outmigration, the demographic hollowing out of the remaining population (more elderly, fewer middle-aged residents), and past political exclusion. In this political vacuum, elected primary cooperative presidents and their staff have social status and organizational resources that put them in a favorable position to fill local leadership voids.

Evidence of the extent to which state officials regard the NACF as a political player at the local level is revealed in the amendments to the basic cooperative law ratified by the National Assembly in December, 1994.<sup>64</sup> In contrast to the amendments proposed earlier,<sup>65</sup> state officials backed off any significant organizational restructuring stipulations in the amendments just promulgated. This reluctance to follow through with major organizational changes was attributed to fears of negative NACF political responses that could jeopardize government party candidates in the upcoming local elections for county executives, mayors, and councils.<sup>66</sup> Primary cooperative leaders are especially worried about the formation of a separate agricultural bank. They fear that such a bank would be set up to compete with established commercial banks and that this would result in less subsidized credit available to NACF farmer members.

In the post-authoritarian era, survival of parastatals is enhanced by organizational capacity that was institutionalized during the old regime. When a parastatal engulfs a sector, fulfilling multiple functions and employing an organizational network that is territorially extensive, it is difficult to dislodge. This is certainly the case with the NACF. As a result of the recent reforms, existing organizational capacity has been enhanced by political empowerment that has stimulated organizational entrepreneurship on the political and economic fronts. While organizational capacity is still maintained in critical ways by privileges granted by the state, the scope for independent NACF action has also increased significantly. Whether this consequence was intended or not, it is a path-dependent outcome of the present regime transition in South Korea.

## **Conclusion**

My contention that corporatization is now occurring in the South Korean agricultural sector goes against the current neoliberal tide. The economic liberalization tenor of the Kim Young Sam administration's reform policies suggests a different sectoral outcome—i.e. decreasing state intervention in agriculture. The organizational corollary to neoliberal economic reforms is the replacement of the NACF-dominated sectoral organizational field with a pluralist

field of differentiated commodity organizations, specialized agribusinesses, and other rural/agricultural sector interest groups. In an era of increased international competition, increased global financial integration that makes national-level macroeconomic management policies obsolete, and the ideological hegemony of neoliberal political economy, corporatist accommodations are predicted to unravel, as evidenced now in Western Europe.<sup>67</sup>

The organizational contours of some economic sectors may, however, prove to be more resilient to neoliberal pressures. It must be remembered that recent cases of decorporatization described in the literature have occurred in countries that had histories of vibrant associational life prior to the formation of *societal* corporatist relationships. Interest group fields remained in place underneath the corporatist organizational layer, if not always prominently featured in analyses of corporatist relations where peak associations were the focal actors. If corporatist arrangements are dismantled in these polities, the organizational base and a culture of associational life remain as a social substratum to nurture political and economic action in response to sectoral problems.

In comparative terms, East Asian rural societies did not develop in pluralistic directions during the course of the twentieth-century agrarian transformation. That is, a diverse social landscape of autonomous occupational, religious, and civic associations did not augment community and kinship ties as alternative sources of social identification and group action in a degree comparable to the West.<sup>68</sup> Special purpose organizations were imposed from the center to mobilize resource transfers and exchanges, rather than developed from below as collective, interest-aggregating responses to socioeconomic change.

In South Korea, the likelihood of rapid development of a robust civil society<sup>69</sup> in rural areas in the post-authoritarian period must be treated with some skepticism.<sup>70</sup> In the context of a Confucian local political culture that values consensus building within the confines of a morally integrated community over and above the promotion of group affiliations based on common self-interest<sup>71</sup> and in the social context of extreme sectoral homogeneity, post-liberation bureaucratic-authoritarian regimes were able to redeploy organizational infrastructure developed during the colonial period to harness agriculture to the national development project and to manipulate the sector politically on clientelist terms. This was not fertile social terrain for the development of a robust, autonomous associational life. Those counterhegemonic organizations that did develop (e.g. farm organizations affiliated with religious groups like the Catholic Farmers Organization) were not able to generate what Gramsci might term an 'organic,' farmer-based leadership with organizational resources that 'pluralized' the organizational field. As a result, during this period of crisis

in rural/agricultural society, sectoral interests are being articulated by those organizations currently populating the social landscape, organizations whose survival is tied to preventing further sectoral atrophy.

The South Korean case shows how external threats or pressures, rather than internal class or intersectoral conflicts, may be relatively more important social catalysts for the crystallization of corporatist state–sectoral relations. The threat of agricultural sector displacement by export competition now looms over the South Korean political economy. The severity of this challenge has enhanced the NACF's survival chances in the post-authoritarian regime transition, as neither the state (or at least some agencies within the state) nor farmers will risk the increased sectoral disorganization that might follow in the wake of NACF dissolution. The NACF, of course, will deploy its resources in ways that its leadership thinks will enhance survival chances in a turbulent environment.

Whether the NACF will retain its present multipurpose organizational form or will undergo a fundamental restructuring into more specialized offshoots remains to be seen. Cooperatives that combine political interest group functions with agribusiness operations are always problematic in capitalist societies. There is an inherent systemic tendency for the organizational separation of political and economic activities. What happens to the NACF organizationally is highly dependent on the future of the rice subsector. If a new policy direction for rice agriculture emerges that is built on a social goods rather than a commodity framework,<sup>72</sup> the fusion of important political and economic functions in one peak sectoral organization (the NACF or some successor organization that focuses on rice farmers) seems more likely to continue. Whether this happens depends on a conjuncture of domestic social movement politics and 'green' reforms in the international trade regime that would insure economic and political space for a sustainable South Korean rice subsector in the twenty-first century.

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## 8 Korean capitalism

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The fading of the Keynesian welfare state and weakening of corporatist arrangements may well signal the end of 'organized capitalism' in the advanced industrialized economies of the West.<sup>1</sup> In 1987 Lash and Urry had predicted the further deconcentration or 'spatial scattering' of earlier patterns of social relations based on cohesive labor politics, mass production, and industrial concentration within national borders. Erosion of the institutional and cultural resources of organized labor, and the rise of the service class based in professional associations would foster both dismantling of earlier patterns, and a restructuring featuring class dealignment, rise of the 'catch-all' political party, flexible production, and global market ties.<sup>2</sup> The deconcentration appears well underway now a decade later but, as yet, the profile of a reconstructed capitalism in the economies of the leading Western economic powers remains unclear. At the same time alternative forms of mediating state and market have begun to take the place of the now deregulated Keynesian welfare state and have affected corporatist arrangements in Germany, Sweden, and elsewhere as well.

One lesson to be drawn from the transitions in Western political economies is the crucial role of structures to bridge the gap between state and market and, indeed, between state and society. E.P. Thompson argued that capitalism stands at the center of a skein of relationships, a societal whole in which 'social and cultural phenomena do not trail after the economic at some remote remove' but rather constitute what 'the economic' is.<sup>3</sup> Today South Korea faces the formidable task of reorganizing or reembedding the capitalist market in state and society. Former mayor of Seoul and prominent party leader Cho Soon argued recently that the nation lacks an 'institutional framework for developing the market, ... and guiding the people to adapt themselves to it.'<sup>4</sup> Political and economic reforms driven by commitments to democratization and market liberalization have forced capital and labor, policy-makers and critics, officials and citizens alike to

reimagine and reshape the institutions that encourage reliable, equitable, and continuous negotiation of interests. Chapters in this volume support a closing argument that the formation of cohesive institutions to mediate state and market is the critical challenge for Korean capitalism at the turn into the twenty-first century.

But the combination of political and economic change pushed by market liberalization and the advent of a government led by a former opposition leader, together with the present financial crisis have brought on both a painful reassessment of the growth years and extensive restructuring of finance and industry. Neil Fligstein has recently suggested a focus on ‘markets and politics’ to understand how social structures are constructed to control competition through organization of both firm and market.<sup>5</sup> Markets in crisis are particularly susceptible to new forms of control, whether bureaucratic forms of governance, contract and property rights, concepts of control, or rules of exchange. A focus on transformations of forms of market control, both at state bureaucracy and *chaebol* offices, may provide insight into the array of painful adjustments disinguisning Korean society today. The demand for greater ‘transparency,’ ironically brings the state back into the center of the economy, if for no other reason than to create the institutions necessary for greater accountability, and safeguard the market to insure a level playing field. Corporatism may provide a balance and border to persistent excesses of personalism and clientelist ties between state and business, but also permit the transparency and impersonal procedures necessary for the nation to recapture the confidence of foreign investors.

### **Politics and markets**

Lash and Urry cite three phases of capitalist development in the West: an initial phase of liberal capitalism, followed by organized capitalism from the end of the nineteenth century, and succeeded most recently by a period of disorganization in a world economy and international division of labor.<sup>6</sup> Their ideal-typical model of political economy would include an initial concentration of capital in an emerging market, supplemented later by the organization of classes and their interest associations in civil society, and finally by the organization of the state; this happened typically in the West between the two World Wars. The model and phases offer a foil for the development of capitalism in South Korea. An influx of Japanese commercial capital on the peninsula at the turn of the century spurred agrarian markets and an international trade in grains. Further investment in the Japanese colony of Korea (1910–1945) brought initial industrialization, mainly in textiles and light industry, and later in chemical and munitions in the years

preceding the Pacific War. An initial concentration of capital in Korea included some local land-based capital, but mainly Japanese capital in both banking and commerce. Equally significant, investment followed in tandem with Japanese informal political and economic control on the peninsula, prior to colonization, and with the comprehensive economic direction of the government-general from 1910. In the Korean experience of modern, international capitalism, an alien state worked closely with alien capital interests from the outset.

One Korean departure from the ideal-typical model of capitalist formation in the West is the prominence of the state. It is not surprising that the post-colonial bureaucracy in South Korea commanded considerable resources of experience, organization, and expertise in the fledgling market economy of the First Republic (1948–1960).<sup>7</sup> Militarization of the peninsula during and after the Korean War (1950–1953) brought the military to prominence, and, together with the bureaucratic resources of the administration already in place, helps explain the advent and cohesive economic direction of the military-led governments under President Park Chung-hee (1961–79) and his successors through 1992. Both the authoritarian character and the success of the state in leading the export-oriented phase of development, and from the late 1970s a national strategy of chemical and heavy industrial production discouraged the rise of strong associations for interest groups in civil society apart from those of concentrated capital. The absence of cohesive institutions in civil society impedes the devolution of state authority and direction, particularly in a nation accustomed to high economic growth which confronts more intense global competition with the opening of its domestic markets.

The prominent role of the state in the first century of Korea's international market capitalism is closely related to a second major departure of the Korean path from the ideal-typical model of capitalist development. The rapid pace of transformation from a relatively autonomous but isolated kingdom in 1876 to colony in 1910, then to division and war following liberation in 1945, and finally to war, reconstruction and growth, did not permit a populist interlude or, indeed, even the market interlude necessary for broader class consolidation predicted in the model. Problems with class identification and action persist today even among the major capitalists in South Korea, and appear decisive among the long-controlled sectors of factory labor and farm workers.<sup>8</sup> The alliance of state and leading segments of capital has dominated the Korean path of development and constrained the participation in policy-making by other interest groups, whether of labor, consumers, or a variety of specific issue groups.

But if a strong state and restive society distinguish the Korean trajectory from the ideal-typical model of Western capitalist development, they also permit only a brief liberal phase, a longer phase of alien and then locally

organized capitalism, and now a rapid transition due to Korea's dramatic rise in a world economy and international division of labor. What complicates the transition in South Korea is the coupling of domestic processes of reform in polity and market with new challenges in the global economy to cross-national investment, flexible specialization, and open domestic markets. The pace and indeed complexity of change at the dawn of the twenty-first century recall Korea's radical shift from the Chinese world order to a modern colonial order of international trade at the end of the nineteenth century. The comparison also suggests constraints on societal consolidation, whether as a colonial dependency or trading nation dependent on international markets. Financial crisis today has brought new scrutiny to the Korean trajectory of economic growth at the expense of political development, although liberalization in the 1980s eventually resulted in democratization. State-led, often authoritarian development strategies may not have permitted the cohesive development of institutions of market in civil society that will be necessary for competitiveness in the coming century.

Coupled with the distinctive timing of Korea's entry into international markets is geographical position which further explains both departures from Western models and distinct phases of development. Sharing a border with the massive Chinese state, the long-tenured Chosun Dynasty (1392–1910) found protection and tolerance of its domestic autonomy as a vassal state of the Chinese Empire. Lying precariously between China and the Japanese islands, the Chosun Dynasty was vulnerable to expansionist ambitions of both powers. The Manchus used the Korean peninsula as a staging area for invasion of the Japanese islands in the thirteenth century, just as Hideoyoshi attempted to use the peninsula as a base for expansion in the sixteenth century. Chinese dominance and Korean fears of further invasion partly explain deliberate insulation from foreign relations and carefully controlled state trade, delaying Korea's entry into capitalist markets until the late nineteenth century. Proximity to the Japanese islands and again, entrée to the continent help explain Japanese expansion to the peninsula and colonization from the turn of the last century. Japanese expansion into Manchuria from 1931 further encouraged investment in the peninsula as a forward base for colonization.

Japan's defeat in the Pacific War permitted liberation from colonial rule, but the strategic position of the peninsula brought division into socialist and capitalist regimes north and south, and then war in 1950. Again position affected capitalist development as South Korea won Western support for reconstruction, and equally important, access to the markets of the West for its labor-intensive, light industrial exports. Cumings and later Koo argued that unlike the economic integration of Latin American nations into US markets, the integration of South Korea and Taiwan was prompted initially

more by political priorities than market concerns.<sup>9</sup> Today market ambitions compete with political goals. Geographical position has been pivotal in a further phase of capitalist growth as Korea exploits new export markets for its technology and capital in neighboring China and the labor-intensive markets of Southeast Asia. Trade isolation and subservience within the Chinese Empire, then colonization from 1910 followed by militarization of the peninsula from 1950, encouraged a prominent state role in the emerging market economy, and left little space for the institutional consolidation of independent interest groups in civil society. US toleration of authoritarian rule coincided with American priorities of security on the peninsula during the years of confrontation with China and the Soviet Union, again offering little encouragement for local interest and group formation apart from state-designated associations.

In addition to time and place, ideologies distinguish Korean capitalism and help explain differences with the Western experience of market development. The critical notion of 'interest' which underlies basic tenets in Western capitalism of private property and private profit, remains unclear in capitalist ideology on the peninsula. Macpherson explained links between such tenets and individualism in the West: 'private property is created by the guarantee that an individual can exclude others from the use or benefit of something.'<sup>10</sup> He further argued that it is an absolute right in two senses: 'it is a right to dispose of, or alienate, as well as to use; and it is a right which is not conditional on the owner's performance of any social function.'<sup>11</sup> The state has long played a prominent role in property rights in South Korea, specifically in areas of designated public interest for military or economic goals. Scholars write more generally of state 'penetration' of Korean society, whether in authoritarian control of labor, or in the partnership with the *chaebol*. The result is an interpenetration of public and private interest which blurs basic distinctions of Western capitalist ideology. Capitalist ideas often become clearer through public debate engaging socialist critics, a debate largely precluded until recently in South Korea due to fears of Communist infiltration from North Korea. Such constraints on discussions of interest, and of the commonweal versus private profit have quite a pedigree on the peninsula, evident in the long phases of colonial and then authoritarian organized capitalism.

### Political economy

A contrast with the ideal-typical model of Western capitalist growth highlights organization at the top in the Korean experience of international market capitalism from the late nineteenth century. But if an alliance between a colonial and then indigenous state with concentrated capital represents a



continuity across years of colonization, militarization, and then authoritarian rule for rapid economic growth in this century, it has not precluded state efforts to organize sectors in Korean society in line with its priorities of security, stability, and growth. The thesis of bureaucratic authoritarianism initially drew the Korean path of state-led development into a context of comparative political economy.<sup>12</sup> If bureaucratic authoritarianism or state corporatism proved useful in understanding a phase of tightly organized Korean capitalism under the state, finding a comparative framework for assessing turns in the contemporary Korean path has proved difficult.

The path of change today includes democratization, market liberalization, and structural adjustment. A growing literature on Korea's democratization from 1987 has shed new light on the formation of interest groups in Korean society, but remains bounded by chronology and a focus on the vagaries in government policy towards more established and the more recently organized interests. Theoretical questions of structural change towards more pluralist, corporatist, or perhaps clientelist patterns of interest exchange have yet to be examined in any systematic way. Market liberalization largely spurred by international trade regimes such as the World Trade Organization (WTO) and the Organization of Economic Cooperation and Development (OECD) has drawn scholarly attention to process and results, but as yet with little attention to more fundamental changes in either state/capital or state/labor relations. None the less, this literature has brought international relations back to center stage in an analysis of Korea's transition, balancing the domestic focus of much of the civil society literature. The immediate problem of structural adjustment, both macroeconomic reforms in finance and trade, but also sectoral-level restructuring of industries and firms has begun to generate case studies of policy formation and enforcement, and of industrial organization and change that promise to enrich the empirical base for tracking more fundamental changes in Korea's political economy.

Among changes identified in the transitions, we can cite some efforts to disorganize earlier patterns among capital, industrial labor, and farmers, or at least to reshape the interest organizations with greater participation from below and less direction from above. A campaign to dismantle state-directed capitalism has found a target in state-structured mediations of state and market. *Chaebol* leaders have proved more restive, and their Federation of Korean Industries more independent. Organized labor has begun aggressively to branch out into competing, dissident organizations beyond both company union and government-authorized national labor federation. A process of consolidation of interests appears strong among industrial labor and farmers, and a reconsolidation among capital, reflecting a turbulent period of reorganization among existing mediating institutions, most evident at the Federation of Korean Trade Unions and at the Agricultural

Cooperative. The process has been broadly described as democratization and market liberalization, or perhaps as the 'rise of civil society,' but we lack a clearer theoretical frame for generating hypotheses and strengthening comparative insights. Some would suggest a permanent turn to pluralism and multiple interest group competition on the peninsula, and others a reversion to earlier types of clientelism and personal ties superceding corporate frameworks. I find more evidence for a pluralist or open-ended interlude leading to a reorganization of interest representation and organization in South Korea. It is also evident that reorganizing capitalism under both market and state will be more difficult than the earlier task of organizing capitalism under the state.

Authors in this volume have surveyed the utility of the corporatist thesis for understanding present trends and future directions in the political economy of South Korea. Yet Lash and Urry questioned the future of neo-corporatist strategies, citing three causes for the 'collapse' or 'crisis' of corporatism in Western Europe.<sup>13</sup> Corporatism was a compromise between social classes in a national context of resource distribution, they argued, eroded more recently by import penetration and dependence on exports. Will the globalization of the Korean economy and growing significance of cross-national ties among capital and labor preclude domestic compromises necessary for concertation among state, capital, industrial labor, and farmers? The Korean economy appears to be far less penetrated by foreign capital and goods to date than the economies of the leading industrialized states. Moreover, the Korean state remains a far more prominent player in macro-economic policy and micro-economic efforts at restructuring than does its counterparts in the West. None the less, the growing influx of foreign capital and goods to Korean markets, and tougher foreign scrutiny of state constraints on local capital or markets may well impede national corporatist arrangements that prove either less competitive or protectionist. Sectoral corporatist arrangements may well prove more enduring and more effective, and permit tripartite compromises ensuring direction and continuity akin to the earlier path of state direction.

Lash and Urry cite also the decline of mass production industries which in turn erodes the organizational basis for industrial labor, depriving workers across the nation of easily identifiable representatives and a cohesive population for mobilizing interests. Here again the transition in South Korean labor from controls prior to 1987, to contention and then to compromise has been complicated by the decline of mass production on the peninsula and the rise of more technologically intensive industries with smaller and more specialized production sites. In one of the engines of the earlier export-oriented industrialization, we find spinners in the textile industry moving production offshore, an attractive precedent for other labor-intensive, light

industries confronting the rising costs of production on the peninsula. Yet a broad population of industrial labor remains in both medium and heavy industries, a group largely without effective representation beyond the company union. Whatever the national solution on wage hikes through tripartite compromises, other forms of federation in industrial sectors or regions or conglomerates may prove necessary for competitive adjustment among state, labor and capital. Again sectoral corporatism remains an alternative, although a more distinctively Korean solution bridging a long tradition of labor organization within the firm, and in functional federations whether representing trades, localities, or conglomerates appears more promising than conventional Western labor organization mainly according to trades or industries.

Finally, Lash and Urry cite diminishing resources for funding corporatist compromises with labor in a more competitive global economy which will not permit generous annual wage hikes nor the welfare provisions central to the 'social wage' ensuring labor peace. Whatever Korean compromise or procedure is worked out at factory and farm, it must include wider recognition of interest groups and wider participation, but within a context of global competition for a geographically small nation largely dependent on exports. The nation cannot sustain either an expensive welfare net or generous wage raises while its competitors reduce costs in both areas, but neither can the nation sustain labor unrest or disruption of the agrarian system of production and distribution. Sectoral corporatist arrangements and tripartite negotiation may prove useful in identifying workable alternatives insuring more equitable benefits and yet insuring labor peace as well.

## **Prospect**

The work of Karl Polanyi brought attention to the interplay between market and society in the development of capitalism.<sup>14</sup> Despite the growing autonomy of market dynamics in international capitalism, Polanyi argued that societies none the less find ways to reassert or reorganize markets to reflect social priorities. Granovetter reclaimed the sociological study of markets to counter studies which abstract from the history of social relations and their interplay with political and economic dynamics. Abstracted from their social context, individuals in markets appear atomized from other groups and from the history of their own social relations. Establishing the premise that most behavior is embedded in networks of interpersonal relations, he advocated greater attention to the sociological, historical, legal structures affecting market interactions.<sup>15</sup> Evans had written earlier of

cohesive or embedded state links to society as one criterion for effective intervention in the development project.<sup>16</sup> Reviewing ties between Korean state and capital, he noted 'the size and diversification of the largest chaebol did not give them interests that were relatively "encompassing" in sectoral terms.' But it was not simply concentration that narrowed interests served by the state, but also the dominance of the state and the absence of 'well-developed secondary associations.'<sup>17</sup>

Continuing the same theme in the comparative study of political economies, Peter Evans recently wrote of 'encompassing' or inclusive embedded autonomy distinguishing successful state intervention in developing economies.<sup>18</sup> Cohesive relations with the central actors in the market, yet relative autonomy from class interests distinguish the 'developmental' state from the exploitative or 'predatory' state in the developmental process. But the key to sustaining a productive state role in industrial transformation is not simply a narrow pattern of ties between industrial capital and the state bureaucracy, but rather an inclusive or 'encompassing' skein of relationships between state and the organized interests of civil society. Looking again to the Korean state, Evans cited challenges to earlier state domination by new interest groups such as labor, by factions within capital, and by leaders within the bureaucracy advocating markets over state controls. Rather than simply dismantling state bureaucracies, Korea faces the challenge of reorganizing or reembedding the state in civil society, a task Evans cited as critical for the success of projects of social transformation. Ahn offered a similar argument looking to the dual task of political reform and economic reconsolidation to meet the growing challenge of global markets, and contrasted alternatives of class domination or factional strife. He concluded that Korea needs 'to empower civil society to counterpoise effectively the state apparatus, and especially its repressive ones, to avoid trapping the society in either a "class state" or a "balkanized state."<sup>19</sup>

Constraints of time and position on the Korean capitalist path, as well as controls on discussion of acceptable 'interest' within a society largely identified with communal ideals, help explain the underdevelopment of institutional mediations between state and society, particularly evident among organized labor. Confronting the dual task of democratization and market liberalization, yet sustained by an infrastructure of production supporting continuing economic growth, and enduring ties of family, region, and school, the task of reembedding the market in a more democratic society demands consolidation of associations to represent and mediate the interests of producer and consumer alike, without losing sight of the commonweal represented thus far by the state. Political party development will further the task of reembedding the state with a coordinating rather than directive

role in the market. At the same time, the state and major participants in the market beyond simply concentrated capital will need efficient networks and cohesive associations to bridge public and private interest, tap the informational capacities of both state and private capital, and harness resources of capital, organization, and technology to restructure in the face of a changing global economy.

A third process of reorganization beyond local state and society is evident in the growing role of the state, capital, and labor in international organizations. Membership of the United Nations and APEC, the OECD, and the ILO has spurred a growing professionalism among participating Korean counterpart groups, and a demand for coordinating networks to insure representation of national interests. The same dynamic can be seen in participation of local professional associations of capital or even of labor in their respective international organizations where professionalism, continuity, and transparent patterns of cooperation among at least state and capital are required. The decline of earlier forms of organized capitalism in the West has spawned new or adjusted forms of mediation between state and market. Similar dynamics of globalization and global competition and of flexible specialization are apparent in South Korea, coupled with quite different, recent forms of consolidation among labor and other interest groups in civil society. The challenge of organizing such emerging forces while maintaining global competitiveness can be met only with more effective mediations of market and state.

The state effort in December of 1996 to push through labor law reforms won the sharp scrutiny of the OECD. Pressure from international organizations contributed to the subsequent revision of such legislation and signaled a new constraint on unilateral government action. Korean firms have succeeded not only as exporters, but now as investors in Europe and the United States. Labor legislation one year later to permit layoffs for firms struggling to restructure won the wide approval of the IMF and international banks. Globalization of the Korean economy brings the government into more sophisticated international trade regimes, but also draws Korea's leading firms into far more comprehensive international ties of both capital and marketing. How will globalization affect corporatist strategies of balancing the common interest with individual interests, a strategy that remains largely a national project in specific sectors of the economy? Streeck and Schmitter saw little prospect for nations of the European Community given the extent of cross-border ties of both economy and polity. Far less regionally embedded, but none the less far more constrained today by international trade and finance regimes, South Korean state and business may not have the luxury of reviving early forms of cooperation even under a more transparent, corporatist format.<sup>20</sup> Similarly,

firms with global ties may be less interested and less bound to dynamics of local market and state, and thus unwilling to join in coordinated policy formation and enforcement. Yet governments that must survive the scrutiny of member states in international trade regimes may find sectoral corporatist strategies which permit transparency and clear legal boundaries more effective than either more clientelistic, informal ties, or the *laissez-faire* approach of state disinterest in economic policy.

There seems little prospect in the short term for societal corporatism as a dominant model of interest mediation in business-state relations across South Korea. Despite an extensive network of trade associations stretching from the local to national levels, the state-led character and compressed process of development across a few turbulent decades have not permitted the organic, cohesive growth of such institutions as legitimate, leading representatives of the organized interests of capital. Trade associations in textiles and agriculture represent two sectors of private capital with long experience and strong organization, but even here the transition from state hegemony to partnership has not been easy. Modern corporatism emerged in Western Europe with the rise of the welfare state, the reign of social-democratic parties with strong labor support, and the political leverage of organized labor. South Korea has followed a far different path to prominence as the world's eleventh largest economy, but confronts similar problems of bridging the commonweal with individual interests.

## Notes

- 1 David Harvey, *The Condition of Postmodernity: An Enquiry into the Origins of Cultural Change* (Cambridge, MA: Blackwell, 1990).
- 2 Scott Lash and John Urry, *The End of Organized Capitalism* (Madison: University of Wisconsin Press, 1987).
- 3 E.P. Thompson, 'The Moral Economy of the English Crowd in the Eighteenth Century,' *Past and Present* 50 (Feb. 1971): 84. See also Derek Sayer, *Capitalism and Modernity: An Excursus on Marx and Weber* (New York: Routledge, 1991), p. 2.
- 4 Cho Soon, 'Government and Market in Economic Development,' *Asian Development Review* 12, 2 (1994): 147.
- 5 Neil Fligstein, 'Markets as Politics: A Political-Cultural Approach to Market Institutions,' *American Sociological Review* 61 (August 1996): 656-673.
- 6 Lash and Urry, Table 1.1, p. 16.
- 7 Hyun-chin Lim and Woon-seon Pack, 'State Autonomy in Modern Korea: Instrumental Possibilities and Structural Limits,' *Korea Journal* (Nov. 1987): 19-32; Dennis L. McNamara, 'State and Concentration in Korea's First Republic,' *Modern Asian Studies*, 26, 4 (October 1992), pp. 701-718, and 'Reincorporation and the American State in South Korea: the Textile Industry in the 1950s,' *Sociological Perspectives*, special issue on Studies in the New International Political Economy, 35, 2, (fall 1992), pp. 329-342.

- 8 Kap-hwan Oh and Hae-Young Lee, 'Urbanism in Korea: A New Way of Life?,' in Yunshik Chang, ed., *Korea: A Decade of Development* (Seoul: Seoul National University Press, 1980), pp. 221-222.
- 9 Bruce Cumings, 'The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences,' *International Organization* 38 (winter 1984) pp. 1-40; Hagen Koo, 'The Interplay of State, Social Class, and World System in East Asian Development: the Cases of South Korea and Taiwan,' in Frederic C.Deyo, ed., *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987), pp. 165-181.
- 10 C.B.Macpherson, 'Capitalism and the Changing Concept of Property,' in Eugene Kamenka and R.S.Neale eds, *Feudalism, Capitalism and Beyond* (Canberra: Australian National University Press, 1975), p. 107.
- 11 *Ibid.*, p. 109.
- 12 Bruce Cumings, 'The Origins and Development of the Northeast Asian Political Economy,' and 'World System and Authoritarian Regimes in Korea, 1948-1988,' in Edwin A.Winckler and Susan Greenhalgh, eds, *Contending Approaches to the Political Economy of Taiwan* (Armonk, NY: M.E.Sharpe, 1988), pp. 249-269. See also Baeg Hyug Im, 'The Rise of Bureaucratic Authoritarianism in South Korea,' *World Politics* (Jan. 1987): 231-57.
- 13 *Ibid.*, pp. 233-234.
- 14 Karl Polanyi, *The Livelihood of Man*. Edited by Harry W.Pearson (New York: Academic Press, 1977); 'The Economy as Instituted Process,' in Karl Polanyi, Conrad M.Arensbert, and Harry W.Pearson, eds, *Trade and Market in the Early Empires Economics in History and Theory* (Glencoe, Illinois: The Free Press, 1957), pp. 243-270; *The Great Transformation* (Beacon Hill, Boston: Beacon Press, (1944) 1957).
- 15 Mark Granovetter, 'Economic Action and Social Structure: The Problem of Embeddedness,' *American Journal of Sociology* 91, 3 (Nov. 1985): 481-510.
- 16 Peter Evans, 'The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change,' in Stephan Haggard and Robert R.Kaufman, eds, *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State* (Princeton, NJ: Princeton University Press, 1992), pp. 139-181.
- 17 *Ibid.*, p. 158.
- 18 Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995).
- 19 Chung-si Ahn, 'Economic Development and Democratization in South Korea,' *Korea and World Affairs* (Winter 1991): 750-751.
- 20 Wolfgang Streeck and Philippe C.Schmitter, 'From National Corporatism to Transnational Pluralism: Organized Interest in the Single European Market,' *Politics and Society* 19, 2 (June 1991): 133-164.

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