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**Karthik Nachiappan**

**The Korea Development Institute, Ordo-liberalism  
and the Political Economy of Reform in South Korea**

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# **The Korea Development Institute, Ordo-liberalism and the Political Economy of Reform in South Korea**

**Karthik Nachiappan<sup>1</sup>**

*ABSTRACT: This paper addresses the impact of ideas on the restructuring of the Korean economy under the Kim Dae Jung administration in the late 1990s. It is concerned with the political economy of reform and how ideas forwarded by the Korea Development Institute (KDI) contributed in forming, shaping and informing the reform policies of the second Kim administration. By doing so, it presents a fresh angle on the reforms undertaken in South Korea that have also largely been explicated without understanding the dynamics of the Korean public policy process. Through the KDI, the paper also tackles and overcomes some of the lacunas within the literature that relate to the relationship between ideas and public policy. An amenable ideational context coupled with focused ideational agency as well as targeted and timely ideas are necessary for ideas to influence policy. The article traces the process of ideational influence of the KDI in three stages, through the problematisation of the crisis, grounding the ideas for reforms in the ordo-liberal tradition and focusing on a set of principles to shape policy.*

## **Introduction**

In January of 2009, Barack Obama ascended the American presidency at an unprecedented moment. The American economy was on the precipice. Plans were afoot to rescue and restore America's economic situation and mitigate the effects of the financial meltdown. Upon inauguration, Obama's incoming chief of staff Rahm Emanuel memorably quipped, 'you never want a serious crisis to go to waste' (Seib, 2008), a reference to Emanuel's support for legislating the sweeping reforms deemed necessary to restore the economic fortunes of the country. While novel in the US, Emanuel's intentions mirrored the motives and subsequently, the actions of former South Korean president Kim Dae Jung; a path-breaking reformer who instituted a series of economic reforms to retool the Korean economy after the Asian financial crisis in 1997/98.

Reforms in Korea were extensive. Under the 'Rebuilding Korea' effort, the Kim Dae-Jung administration gradually dismantled the collusive business-government-finance triad and implemented a series of structural and market-oriented reforms to alleviate the effects of the 1997/98 crisis and enable the Korean economy and citizens to adeptly engage with and leverage globalization to their benefit. Within the literature, this reformist shift has been explained by

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<sup>1</sup> Karthik Nachiappan is a Research Associate at the Centre on Asia and Globalisation at the Lee Kuan Yew School of Public Policy.

three dominant approaches that variously preference the influence of domestic politics, transaction costs and geopolitics. However, each of these approaches, while contributing to our understanding of the dynamics at play, has neglected the role of ideas and ideology and their impact on the political economy of reform in South Korea. This paper seeks to fill that void.

I argue that ideas, also, played a key role. Under the agency of the Korea Development Institute (KDI), an authoritative Korean economic policy think tank, the government's reform agenda was judiciously charted by problematising the nature of economic crisis, grounding the reforms in the ordo-liberal tradition and deriving a set of core principles from that philosophy to shape economy policy. Moreover, I show how subsequent reforms instituted directly bore resonance to the ideas and principles conveyed by the KDI at this critical juncture.

The paper is structured as follows. Firstly, I provide a brief rendition of the economic trajectory of South Korea, from the end of Korean War to the onset of the Asian financial crisis. Following that, I describe the political economy of reform in South Korea leading up to and following the crisis, distinguishing between the approaches and outcomes of both Kim administrations and how the literature has covered them to date, largely absolving the ideational aspect and influence. In the following section, I explore how various literatures have explored the relationship between ideas and public policy and subsequently, build from those insights, the process of how the Korea Development Institute (KDI) influenced and assisted the fruition of Kim Dae-Jung's reform agenda in South Korea. And finally, I distil a few implications of KDI's efforts on the market building processes in Asia as a purported member of civil society.

## **The Economic Development of the Republic of Korea**

Over the course of the twentieth century, few countries have posted as stellar an economic record as the Republic of Korea. But this development was not foreordained by any account. After the war, Korea possessed few prospects for growth. The incoming Syngman Rhee government displayed considerable ignorance on economic matters and opted to subordinate growth to the maintenance of order and security during the cold war (Kohli 2004: 62). Rhee's dirigiste regime avoided extensive economic planning, eschewed the promotion of the public sector (to placate American fears over communism) and maintained a modest tariff rate that thwarted credible import substitution from taking place. Politics reigned paramount as the regime overwhelmingly channelled its energies towards tackling communism, negotiating a workable accord reliance with Washington whilst appeasing a corrupt business class that elicited rents without commensurately developing the industrial capacity of the nation (Kohli 2004: 80-83). Consequently, Korea largely muddled through during Rhee's reign.

Under the stern steadfast leadership of Park Chung Hee, prospects flowered. Through the unified efforts of government, business, labour and citizens, the Korean economy flourished. Park remoulded the state to function as the economic catalyst, galvanizing the energies of the private sector and citizens, harnessing their potential through the bureaucratic apparatus. Park leveraged tenets of Japanese economic ideology and the institutional legacies of the colonial bureaucratic structure to construct a growth-oriented alliance between the state, capital, and labour (Kohli 2004: 123-126). This structure was to carry the Korean economy into the developed world, with the results nothing short of astonishing. Real GDP rose at an average rate of ten per cent per annum from 1963 onwards (Krueger and Yoo 2002, pp. 8). Per capita income grew from \$82 in 1961 to \$10,315 in 1997 (Chang 2003, pp. 3). By the early 1990s, Korea had entered the ranks of other advanced industrialised countries and was officially invited to join the OECD, exemplifying the country's economic ascent in a generation.

However, the rise of Korean economy was not an unqualified triumph. As the economy grew more complex, structural deficiencies emerged and festered. As exports rose exponentially, so did imports alongside the increased dependency on foreign technology, capital and resources (Kohli 2004: 119). Simultaneously, the concentration of economic power reached an apogee. Private businesses and their conglomerations, or *chaebols*, overleveraged to finance their expansion. Occasionally, these conglomerates were required to undertake commercial ventures that government authorities felt would make the economy more competitive (Krueger and Yoo 2002: 10). And they did so under a tacit accord with the government that directed financial institutions to provide necessary financing to make their operations feasible, profitable and underwrote those debts should they fail (KDI 1999: 5).

Resilient growth records largely masked these fault lines until the onset of the Asian financial crisis, which devastatingly exposed the flaws within the economic structure. Following the devaluation of the Thai Baht, the confidence of foreign investors and institutions towards Asia gradually waned as markets began to question the solvency of the region's economies and financial institutions (Chang 2003: 4). As investors began to act on withdrawing investments in Korea, a series of *chaebol* bankruptcies ensued and a foreign exchange crisis resulted. Excessive indebtedness spurred by a weak corporate and financial structure undergirded by a government unable to function as the ballast undid the Korean economy and ushered clarion calls for restructuring, led by the International Monetary Fund and the United States (KDI 1999: 4). Reforms ensued.

## The Political Economy of Reform in South Korea

The process of reform in South Korea, in actuality however, both predated and followed the Asian financial crisis. After Kim Young Sam assumed power in 1993, efforts were initiated to institute a solid institutional foundation for a liberal economy. Through the *segzehwa*<sup>2</sup> policy, the government introduced policies to ease labour market rigidities to prepare for Korea's entry into the WTO and OECD (Kihl 2004: 152). President Kim Sam also restructured the economic policymaking process by merging the Economic Planning Board and Ministry of Finance into the Ministry of Economy and Finance (Saxer 2007: 3). Five-year economic development plans were abandoned and a Presidential Segyehwa Promotion Committee (PSPC) was created to realise and manifest the President's visions with regard to globalisation (Kim 2000: 365). Despite these efforts, the fundamentals of the dirigiste economic structure in Korea remained largely immune to the ongoing dialogue on reform. Furthermore, as noted above, these collusive structures directly resulted in overleveraging, a loss of market and investor confidence, and the eventual collapse of the Korean economy.

Kim Dae Jung assumed the Korean presidency at this unpropitious moment. Faced with a financial meltdown, Kim unveiled the 'Rebuilding Korea' policy and charted a course to reform and transform Korea for the 21<sup>st</sup> century (Mathews 1998: 758). Under a fresh mandate, Kim introduced a litany of reforms in four main areas (financial, corporate, labour and the public sector), to dismantle and overhaul the government-business-finance triad and foreground the Korean economy on a more market-oriented economic structure (KDI 1999" 19). Market reforms, especially vis-à-vis foreign investment, were coupled with structural reforms in the form of deregulation, privatisation, public sector reform and restructuring of the chaebol's industrial structure to make Korea a more competitive economy. Despite considerable opposition, Kim Dae Jung prevailed, fundamentally recalibrating the Korean economy for a new era (Kihl 2004: 156).

Hitherto, explanations as to why Kim Dae Jung's reform agenda succeeded while his predecessors failed fall under three broad schools of thought. The first school privileges the importance of domestic politics in understanding the trajectory of reform. From this perspective, the leadership approaches of both presidents differed markedly, ostensibly accounting for the divergent results in terms of reform implementation. Moreover, Kim Dae Jung's style was seen to be more adept in mobilising business and labour and acquiring the assent of these groups prior to legislating reform. Conversely, President Kim Young Sam firmly took a pro-business stance, jettisoning the interests and concerns of organised labour (Kihl 2004: 180). The second school of thought highlights the importance

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<sup>2</sup> 'Segyehwa' does not only imply further internationalization and liberalization but is considered as 'far more comprehensive, embracing political, cultural and social open-mindedness' (Kim 2000).

of transaction costs in understanding the respective reform processes, with the second Kim administration seen as more adept in terms of managing the costs of coordination between the various actors. As Jesse et al. (2002) argue, the failure of the Kim Young Sam approach should be attributed to the government's efforts to deal with labour and business in different arenas, with the political complexities surrounding this fragmented engagement eventually hindering cooperation and thwarting reform (Jesse et al. 2002: 402). On the other hand, Kim Dae Jung's efforts in bringing these actors and their divergent interests together was facilitated by the presence of the IMF, whose edicts eliminated the costs of coordination and hastened collective action (Kihl 2004: 171). A final school describes the centrality of approach geopolitics in realising the reform drive in 1998. From this perspective, the resolute support from the Clinton administration and the International Monetary Fund, in the context of a pan-Asian financial crisis, worked to the favour of the reformists in the second Kim administration (Chin et al 2000: 36).

Disconcertingly, however, missing from this discussion and debate are ideas. Was there an ideational element underpinning economic reforms in South Korea? Is there adequate evidence to suggest that ideas played a role in the triumph of the second Kim administration's reform agenda? Given the historical juncture that Korea found itself in, absolving the ideational aspect from the picture does tend to render the reform process relatively unintelligible. In order to overcome this lacuna and demonstrate how ideas and a clear cognitive understanding of the juncture presented a roadmap for reforms in Korea, I explore the role of the Korea Development Institute and its influence during and prior to the process of restructuring. What is clear is how the ideas it conveyed shaped the content of economic reforms undertaken by the Kim Dae Jung administration. But prior to that, a brief exegesis on the literatures that delve into the relationship between ideas and public policy.

### **Ideas and Public Policy – Prevailing literatures**

Three broad literatures elaborate on how ideas shape public policy. The first literature explores the ideational context. Under the 'Knowledge Utilization' rubric, Weiss (1979) and Caplan (1979) explored the conditions and constraints impeding the utilization of knowledge within policy processes. Although both claim that knowledge does have an impact, they clearly indicate the difficulties in discerning that process; indeed, a problem that endures to date. But their signature contributions emanate out of what they assumed and paid relatively little attention towards – the notion that researchers and policymakers inhabited "two different communities" separated by a gap that needed to be bridged to facilitate the transfer of knowledge into policy (Caplan 1979: 459-460). Disconcertingly, the agents, organisations, institutions, and vehicles transmitting

ideas did not appear as important; of more significance was the context, bifurcated with knowledge on one side and policy on the other.

A second approach takes ideational content more seriously. Experts from international relations (IR), security studies, and sociology, joined the fray to elaborate on their growth. Several comparative volumes emerged (Stone and Denham 2004; McGann and Weaver 2002). Scholarly inquiry veered in this direction for a few reasons. First, ideas gained prominence as explanatory factors with the constructivist within IR. Second, the mushrooming of think tanks in the developing world that seldom resembled or fit orthodox definitions compelled academics to broaden their toolkits prior to inquiry. And third, a concerted effort grew to critically situate and understand think tanks vis-a-vis national political contexts, regional and global power shifts, rise of epistemic communities and overarching ideational agendas that are influenced by hegemonic powers. However, these accounts grossly exaggerate the exclusive potential of ideas in transcending borders and influencing policy outcomes. We need to eschew producing analyses that reify ideas without understanding and mapping how they intersect with prevailing issues, institutions, actors, and structures.

Finally, another literature focuses on think tanks. Most accounts delineate the growth of think tanks and their purported features, namely independence, impartiality, quest for influence and ideational currency. Diane Stone (1996) initially identifies them as “non-profit organizations engaged in the analysis of public policy issues, independent from government, political parties, and interest groups (Stone 1996: 13).” McGann and Weaver (2002) identify them as “playing a mediating function between government and public; identifying, articulating and evaluating current or emerging issues, transforming ideas and problems into policy issues, serving as an informed and independent voice in policy debates; and providing a constructive forum for the exchange of ideas and information between key stakeholders (McGann and Weaver 2002: 3).” Andrew Rich (2005) defines them as “independent, non-interest based, non-profit organizations that produce and principally rely on expertise and ideas to obtain support and to influence the policymaking process (Rich 2005: 11).” But think tanks are not all uniform in nature nor do they all possess ubiquitous influence. By neglecting the role prevailing structures play in shaping the contours and context of ideational agency, this approach abdicates the ability to generate more grounded accounts of think tanks since they are extricated from the institutional fundamentals of the state that determine their agency and efficacy. We also need to pay more attention to the temporal dimension.

Thus, I draw from the insights of these three approaches to develop an analysis of how the Korea development institute influenced and shaped the economic restructuring of South Korea in 1998.



## **KDI and the political economy of reform in South Korea**

### *Ideational context*

As Korea rapidly industrialised during the Park administration, a premium was bestowed on knowledge and harnessing it to formulate the government's ambitious five-year economic development plans. Under the Park administration, economic policymaking was firmly centralised and placed under the control of the Economic Planning Board (EPB), a behemoth that absorbed policy responsibilities from the ministries of planning, reconstruction and finance (Mason et al. 1987: 252). The EPB became the epicentre of short, medium, and long-term policy planning. Under its leadership, the government unveiled a series of five-year economic development plans that resolved to place the Korean economy and state on a solid economic trajectory. As the planning process matured and the issues faced by the bureaucracy grew more complex, more robust expertise was necessary to conceive policies that befitted the economic objectives of the Park regime (Mason et al. 1987: 255-57).

The Korea Development Institute's (KDI) genesis can be attributed to the salient need of possessing an entity that can research economic policy issues in a systematic manner and assist the government in the formulation of five-year economic development plans and its attendant policies. Also involved in its foundation was the American government, which wanted to leave an imprint on Park's economic policies by training Korean economic technocrats in the United States (Moon and Jun 2011: 137). Since then, the institute has gradually cemented its place in the state's economic policymaking apparatus that has also evolved as Korea liberalised over the past two decades. But its governing mission has not considerably altered. As the premiere non-governmental body and authority on economic research and analysis, the KDI prepares policy options to help the Korean government judiciously manage and achieve growth and prosperity (KDI 2010).

From the third five-year economic plan (1972-76) onwards, the economic policy process grew more decentralised and collaborative. The EPB centred itself amid an apparatus that consisted of twenty-two working groups staffed with government officials, experts from research institutes, banks, business associations and universities. Within this structure, the KDI focused on the areas of macroeconomics, public finance, monetary and fiscal policy, industrial organization and international trade and conveyed its know-how as and when summoned by the EPB (Mason et al 1987: 256). The mandate and mission of KDI burgeoned in the 1980s and 1990s. As the Korean economy prospered, the institute commenced studying issues that could potentially impede and slow growth potentials; more emphasis on the structural problems afflicting the economy also ensued. Social policy attained greater importance; the institute also compiled a comprehensive social index system that included a statistical

overview of major issues such as population, employment, culture, gender and the environment (KDI 2011).

As Kim Young Sam rose to power with a clear intent to liberalise the Korean economy, there was considerable hope that the agenda would be littered with panoply of corrective measures to steer the economy away from Park's dirigisme (MFA 1994: 15-18). The formation of the Presidential Segyehwa Promotion Committee consisting of representatives from government, academia, research institutes and the private sector gave further hope towards incorporating fresh economic ideas that would manifest in concrete public policies. In effect, the PSPC was mandated to lend shape and substance to President Kim's visions of globalisation (Kihl 2004: 154).

But Kim's visions did not materialise given his penchant to focus on how to enable Korea achieve first-world status via *segyehwa* without ever explicitly charting a course to reach this status. Kim argued that globalisation represented a "global trend" and that South Korea was in the middle of an era of a "borderless global economy" (Kihl 2004: 163), with the country needing to prepare itself for "boundless global competition". The government claimed that *segyehwa* referred to "rationalizing all aspects of life" and a "sweeping transformation of society" (Kim 2000: 245). In fact, the concept of *segyehwa* was vague and obfuscatory in nature and not amenable towards being manifested in terms of policy. While the rhetoric was voluble, *segyehwa* became less and less substantive (Saxer 2007: 4). The lost opportunity essentially meant that the government had lost the opportunity to execute necessary reforms, leaving the economy and the state woefully unprepared for the consequences of an abrupt external shock, which occurred in 1997.

The onset of the Asian financial crisis and the calamitous effects it had on the Korean economy ushered a moment ripe for reform. And the Kim Dae Jung administration rose to the task with a series of measures aimed towards mitigating the crisis and restoring investor confidence in the Korean economy. Under an ambitious slogan of a "Parallel Development of Democracy and Market Economy", Kim Dae-Jung employed the IMF as a cover to conceive and implement the necessary economic reforms but the administration's agenda unlike their predecessor's was also extensively mapped and charted with assistance from the Korea Development Institute (KDI 1999; 1999a).

### *Ideational Agency*

At the outset, Kim Dae-Jung's approach did not fundamentally differ from his predecessor's. In his inaugural address, Kim couched the policy rhetoric under globalisation. He stated, 'the information revolution is transforming the age of many national economies into the age of one world economy, turning the world into a global village' (DJ Kim 1998: 226). But he also firmly stated the government's intentions to pursue a 'parallel development of democracy and

market economy' and if 'democracy and a market economy harmonise and develop in tandem, there will be no collusion between government and business circles' (KDI 1999: 1). This strategy of simultaneously pursuing globalisation and democratisation through concerted market reform was unprecedented and also deftly mapped by key policy actors, including the restructured Ministry of Finance and Economy, which soon assumed greater writ to enact and implement a series of reforms (Kihl 2005: 162).

To facilitate this particular effort, the Ministry of Finance and Economy secured the assistance and expertise of KDI. In a series of publications at this juncture, the KDI facilitated the government's reform drive by presenting a cogent account of why the reforms were necessary, how it should be aligned and on what intellectual grounds the reforms should be based (KDI 1999, 1999a). Moreover, the institute also provided the administration a clear understanding of how the economic framework needs to be altered in order for the government to formulate economic policy in a globalising world.

### **Ideational influence – KDI and the Dae-Jung 's administration's economic policies**

Surveying the social sciences, we can surmise that ideas have risen and now are now recognised as major explanatory factors of political behaviour. Ideas are causal beliefs, products of cognitive understandings of our material world. They posit causal connections of why events occur and provide guides for action. Ideas also shape how political problems are perceived, give shape and substance to strategies that can rectify those problems, and are the vehicle through which problems are communicated and justified (Beland and Cox 2011: 2-5).

Within the Korean context, the KDI played the role of the ideational anchor, prudently explicating why the country had careened into a crisis, grounding their strategy intellectually, and charting a blueprint for reforms that it perceived would help enable the government escape the maelstrom and resolve festering problems. To elaborate, I draw from a series of publications that were published by the institute, at the request of the Kim Dae-Jung administration as it explored different ways to approach the restructuring of the Korean economy.

### **Problematising the collapse**

Presenting an effective case to tackle the economic meltdown required a particular understanding of the antecedents of the crisis that could shape remedial policy measures. Three problems were identified by the institute as directly responsible for the steep decline of the Korean economy, precipitated by the Asian financial crisis: liberalisation without commensurate financial

supervision, loss of investor confidence in global markets and corporate and financial insolvency (KDI 1999: 5-8).

In 1993, the incoming Kim Young Sam administration instituted several financial liberalisation measures in order to fulfil the criteria of OECD membership. Broadly projected as one of the measures under *seggyehwa*, the Ministry of Finance and Economy announced twelve new regulations that opened Korea up to inward and outward capital flows (Kihl 2004: 164). Furthermore, the government also liberalised market interest rates and announced a plan to reform the foreign exchange mechanism to further open up capital markets in Korea. But, this was done without commensurate supervision or regulation. As a direct result, Korean companies got far better access to global capital markets and foreign capital. In due course, short-term debt ballooned to unprecedented levels, even exceeding long-term debt in 1994-5. By 1997, domestic manufacturers carried debt levels that were four times the size of their equity (Krueger and Yoo 2002: 11).

As Korean financial institutions and companies overleveraged without adequate controls to mitigate short-term capital flows and investments, it placed the entire economy at the mercy of international capital markets, whose confidence in economies derived from perceived macroeconomic fundamentals. And as debt burdens mounted, the level of confidence in the Korean economy gradually waned. The plummeting of the Thai baht triggered a regional financial crisis that eventually extended to Korea. Fearing losses, commercial and merchant banks reacted by recalling their loans to many of the companies they had liberally lent to. Moreover, the government exacerbated the situation by implementing an anti-bankruptcy agreement that blocked banks from demanding payments on their loans to insolvent companies and even impelled them to extend further financing to these firms (Chang 2003: 4-6). Observing these events, foreign investors began reassessing their faith in the Korean economy and businesses and started withdrawing their investments en masse. The combined actions of domestic and foreign institutions resulting in a pervasive contraction of the financial market drove companies to bankruptcy (KDI 1999a: 9-10).

Corporate insolvency triggered financial insolvency. In 1997, eight of thirty chaebols went into bankruptcy, including the Hanbo, Kia and Jinro conglomerates. In addition to being overleveraged, businesses hedged their debt burdens by issuing debt instruments to finance their projects and expansion (KDI 1999a: 5). The financial institutions, under the direct backing of the government, provided these chaebols with credit guarantees that assured their investments. And the chaebols deployed these instruments to further invest in numerous unrelated and arguably questionable projects, which eventually failed following the exodus of foreign capital (Chang 2003: 5-7).

In sum, the Korean crisis emanated from a loss of investor confidence in the economy's insolvent economic and financial structures, themselves a legacy

of the Korean government's intimate alliance with business and finance to engender growth, which were untouched as the Korean government undertook capital account liberalisation in the early 1990s. As the institute conveyed, the manifested weaknesses delineated above were also, in essence, a function of the accumulating structural flaws in the economic structure that needed to be remedied by developing the rules and principles of a market economy, reflective of the changes in the global economy (KDI 1999a: 8).

### **Grounding the case for reform – Ordo-liberal tradition**

Consequently, the KDI's articulation of the problems leading to the crisis pointed to the government's delay in marketising the economy. Had the market mechanism been allowed to organically develop, the collusive relationship between government, business and finance would have not been entrenched and subsequently caused havoc to the economy and the country. Thus, the balanced development of democracy and a market economy would be critical towards overcoming the ongoing crisis and reorient the economy on a sustainable path towards growth and prosperity (KDI 1999: 37).

In order to create this economic order, the institute advised the government to reorient the government's role based on the *ordo-liberal* tradition, which advocates that governments refrain from intervening to allocate resources in the economy and instead function as custodians of the market order (KDI 1999a: 32). The ordo-liberals call for the government to extricate itself from the economy, though not completely. In order to protect and advance political and economic freedoms, it falls on governments to establish an economic order capable of restraining the unbridled rise and influence of private power (KDI 1999a: 33). A collusive and captured politico-economic order would make the government beholden to interest groups whose interests do not cohere with the public good. Competition is limited and the economic freedom and agency of citizens is constrained. Therefore, the institute called for the government to recalibrate the economic structure and paradigm such that their principal onus was towards ensuring the smooth functioning of the market economy by dismantling the various structural barriers hindering economic potential.

### **Shaping economic policy – Tenets of ordo-liberalism**

In terms of economic policy, the ordo-liberal tradition was channelled through three basic principles – guaranteeing of economic freedoms and the provision of equal opportunity, injecting market competition and the opening up of markets to national and foreigners (KDI 1999: 35). Reforms that are shaped by these economic principles, the institute stipulated, would enable the Korean government to 'break down the framework of the authoritarian state-controlled

economy' and allow for a 'free, fair and efficient economic order' to be established (KDI 1999: 37).

To ensure that economic freedoms were not impinged upon, KDI advocated that the administration reforms various laws, institutions, and the organisation of governmental agencies that hinder free market enterprise. Simultaneously, the government was impelled to allow private businesses to resolve their commercial differences through clear and robust legal standards rather than administrative fiat, a pervasive practice adopted by former Korean governments to resolve economic disputes (KDI 1999a: 36). Moreover, guaranteeing economic freedom also transfers the onus of welfare from the state to the citizen, a clear departure from the legacies of preceding Korean administrations that extolled the virtues of an omnipresent paternalistic state.

Secondly, the Korean government was urged to inject competitiveness by altering the compensatory practices of economic behaviour. The institute called for the government to remove unwanted regulations that restrict competition by prohibiting new firms to enter the market or by providing preferential treatment to existing conglomerates through guaranteed financing or through discretionary measures (KDI 1999a: 38). Equality of opportunity also became a priority to enable each citizen to fulfil their innate capacity and the government was called to invalidate barriers that restrict equal opportunity.

Finally, the administration was impelled to open up the Korean market to national and foreign firms. Odious colonial experiences had coloured the tendency of past Korean regimes to limit foreign ownership within the country (Kohli 2004: 89). However, the institute insisted that recognising the equality of all firms operating within the country is critical to enable the Korean economy reach greater heights. Doing so would also advance the competitiveness within the economy and facilitate the fertilisation of technology, capital and expertise between domestic and foreign firms (KDI 1999a: 39).

By adhering to these basic principles within a framework, the KDI urged the government to legislate policies that would establish underlying laws and institutions to transform the Korean economy from a "state-led regulation oriented economic system of the past to a proper market economic system" (KDI 1999a: 40). As I shall delineate in the next section, several of the reforms legislated bore direct resonance to the principles and tenets of the *ordo-liberal* philosophy endorsed and extolled by the KDI.

### **Ideas in policy – KDI and KDJ's 'Rebuilding Korea'**

In addition to the strategic window of opportunity accorded to the Kim Dae-Jung government by the IMF to usher reforms, the administration's policies to restructure the corporate, financial, industrial and governmental structures can be traced to the ideas and principles extolled by the KDI to the Ministry of

Finance and Economy. Four direct policy measures are clearly derived from the *ordo-liberal* philosophy and principles delineated above.

To enhance the economic freedoms of Korean citizens and firms and simultaneously dismantle the pervasive institutional sway of the conglomerates, the Kim Dae-Jung administration undertook a sweeping corporate restructuring program of the five major *chaebols* in 1998 (Kihl 2004: 168). The major *chaebols* (Hyundai, Samsung, Daewoo, SK and LG) consented to a broad plan that limited their expansionary inclinations, retrenched marginal and unprofitable subsidiaries, eliminated their cross-guarantees with financial institutions, strengthened their linkages with small and medium size enterprises and bolstered core accountability mechanisms. In addition, the government placed the fair trade commission in charge of monitoring the restructuring process, ensuring compliance and preventing the *chaebols* from engaging in collusive practices (Kihl 2004:168).

In order to infuse more competition into the economy and limit government's role, the administration established a regulatory reform commission that immediately reduced the amount of regulations on statute by as much as half (Kihl 2004: 169). Complementing deregulation, the administration also strengthened the corporate governance system to lessen the impact of majority shareholders, bring external and foreign personnel to corporate boards and bolstered corporate disclosure and transparency policies (Gills and Gills 2000: 90). The government also reorganised itself to become more lean, nimble and competitive. In July and August 1998, a comprehensive privatisation plan was instituted that privatised five SOEs and thirty-three government controlled companies (KDI 1999a: 17).

And finally, to open up the Korean economy and create an equitable climate for foreign and domestic enterprise, the administration instituted several key pieces of legislation. A foreign investment promotion act was enacted in November 1998; the initiative provided many incentives for foreign investors to return and reinvest in Korea. The government also intensified its trade diplomacy at various summits. Trade delegations were organised at bilateral gatherings to the United States and at regional congregations such as the Asia-Pacific Economic Cooperation (APEC), the Asia Europe Meeting (ASEM) and the Association of Southeast Asian Nations (ASEAN), where President Kim vigorously reaffirmed his commitment to economic reform and urged foreign countries to reinvest in Korea (KDI 1999a: 16). In addition, the government also abolished restrictions on mergers and acquisitions and liberalised real estate ownership, with room for hostile takeovers also opening up. The administration also liberalised the exchange rate mechanism so that the Korean won's value would be completely determined by the market (Gills and Gills 2000: 88).

## **Civil society, think tanks and market reforms in South Korea**

A clear ideational element guided the reforms implemented by the Kim Dae-Jung administration following the Asian financial crisis. Under the active stewardship of KDI, an authoritative non-state entity, the government's reform agenda was fruitfully conceived and executed. In this section, I draw a few broader implications of the KDI's imprint on Korea's reforms process from the perspective of civil society and its role in assisting the market building process across Asia.

Civil society epitomises a broad, vague, and often obfuscatory concept. For our purposes here, it is understood to signify a realm that exists as a distinct sphere in its own right, in conjunction with the state and the market (Alagappa 2004). In addition, it is to be understood as "an autonomous arena for self-governance by non-state actors in certain issue areas" (Alagappa 2004: 32). Within the parlance of IR and public administration, think tanks are identified as one such actor in this autonomous 'third sector'. As McGann and Weaver claim, think tanks ply governments with timely information and analysis on salient policy issues and as such constitute "an integral part of the civil society and serve as an important catalyst for ideas and action." Moreover, they contend that as civil society members, think tanks play a "mediating function" between the government and the public and also "serving as an informed and independent voice in policy debates" (McGann and Weaver 2009: 2-5). Of interest in our case would be to subject the KDI's role and efforts against prevailing notions of think tanks as civil society members briefly elucidated and what they signify.

We can surmise that KDI played a role that was fundamentally functional and utilitarian in nature. As the government tripped into an economic abyss in the late 1990s, technical expertise and analysis was necessary to shape and eventually implement reforms to rescue the teetering Korean economy. Serving as a key resource of ideas at a critical juncture, the institute exerted its agency and influence.

Agency, though, is not unconditional or voluntary. For more than a couple of decades, the institute had played a role within the economic policy structures of the state and had become accustomed to being a tap of ideas feeding economic policy. It had embedded itself in the policymaking processes of successive Korean governments. As times changed and the Korean economy gradually prospered and matured, the instituted shifted its focuses, by contributing towards policy issues that an advancing economy faced. In this respect, the KDI functioned at the behest of the Korean government and their agency and access was shaped by their capacity to hew closely to the government's policy priorities through the decades. When the 1997 financial crisis struck, it became evident that the incoming Kim Dae Jung administration's policy possibilities were foreordained given the economy's state. Coupled with external exigencies, domestic forces within government and business were united in their quest to



reform the Korean economy that precluded from consideration any concerns that proposed reforms might have on citizens. Liberalization assumed precedence and the institute assisted in grounding and developing policy propositions to that effect. To this end, the KDI's role and impact was contingent on toeing the line afforded to them by the external environment and the interests of pertinent policymaking ministries, finance in particular and business.

As a result, the KDI's influence was and is dependent on their proximity to the levers of power, operating as handmaidens and not as entities challenging the status quo or those defending the interests of the larger public. Their relationship to the citizens and their interests is negligible and they have spent decades cultivating and honing their linkages with the governing establishment. Proximity has resulted in greater responsibility and access for the think tank, elevating and consolidating their institutional presence.

On the one hand, as a quasi-independent entity, they are having a positive impact on policy through their ideational presence but on the other, it is debatable whether their influence is reflective of the public interest or of those in government and business. And this also problematises their inclusion within the civil society as an entity that resides independent of the state and market. The KDI's presence, influence and agency epitomise the blurred divisions between entities that operate on the boundaries of the state and the market. In terms of market building, the think tank has clearly had an effect by plying their ideas and expertise to conceive and ground reforms but it is unclear and questionable if they have done that as a member of civil society.

## **Conclusion**

This paper argues that ideas played a key role in the restructuring of the Korean economy under the Kim Dae Jung government. An amenable ideational context, sustained ideational agency and targeted and timely ideas are necessary for ideas to influence policy. The Korea Development Institute's role in facilitating the reforms of the second Kim administration exemplifies how ideas, agents and institutions can unite to inform and shape the policies that led to the restructuring of the Korean economy.

Since the early 1970s, the KDI's emergence, presence, and institutional linkages with the economic policymaking apparatus have resulted in entrenching their role within the Korean policy process. Through the decades since, the KDI has been constantly engaged in investigating myriad issues related to the economic wellbeing of Korea, and conveying that to authorities when called upon. Sustained agency gradually morphed into clear and tangible influence as the Asian financial crisis descended, in turn, engulfing the Korean economy. As the Asian crisis struck, Korea was placed at an extremely perilous juncture. Incautious capital account liberalisation escalated the economy's short debt and placed businesses, financial institutions and the government beholden to the

impulses of international capital markets and investors. The ensuing financial collapse plummeted the Korean economy and vividly exposed the structural flaws that precipitated the crash. Calls for reform gradually intensified.

At the Ministry of Finance and Economy's request, the KDI led in explaining the problems that triggered the collapse of the Korean economy, grounding the case for reform under the ordo-liberal tradition, exalting its emphasis on retooling the role of the government in the economy by subordinating its role and intervention to the market. This approach was further channelled through three ordo-liberal tenets, the provision and expansion of economic agency and freedom, advancing the market as the principal arbiter of commerce and reducing the role of direct governmental intervention, and liberalising various critical sectors of the Korean economy to enhance the competitiveness of domestic actors. And the imprint of this particular approach manifested in the policies that the administration subsequently legislated. In four major areas, business and corporate governance, capital, public sector, and labour, the government instituted reforms to further improve the "rules of the game", and facilitate free and fair competition to emancipate the economy from the remnants of the cohesive capitalist state that had endured since Park Chung Hee's demise.

The KDI experience belies prevailing notions of think tanks functioning as independent sources of impartial advice and counsel to governments. Though by definition, they are independently formed and organised, the KDI has gradually cemented itself within the structures of economic policy within the government in a manner that does lend credence to the institute being a *de facto* arm of the Korean establishment, functioning beneath the interstices of the state and market, unlike most civil society entities which operate between. And their impact on the market-building processes in this respect, through the market reforms after the financial crisis, must also be understood in that context.

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