Global Pressure, Local Adjustment:  
The Political Economy of Telecommunication Liberalization in Korea in the 1990s*

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Abstract: This paper examines the political and economic implications of the liberalization of international telecommunications in South Korea in the 1990s and the changing roles of the South Korean state. Until the end of the 1980s, the South Korean telecommunications sector was controlled by a public monopoly. With the internal political and economic need for industrial restructuring, various external forces have driven liberalization of the telecommunications industry since the late 1980s. Intertwined with the national political economy, those external forces and, more generally, structural transformations in the global political economy have also significantly affected the nature and roles of the South Korean state.

Keywords: Globalization, International Organization, South Korean State, Telecommunication Liberalization

INTRODUCTION

The process of globalization has increasingly demanded efficient telecommunication networks as the basic infrastructures for conducting economic, political, and cultural activities within and between countries. However, the old national telecommunications monopolies have generally failed to meet this demand as a result of their inability to innovate and adjust to the needs of the marketplace and to technological change.

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With rapid innovation in information and communications technologies and the overwhelming power of laissez-faire market liberalism, market forces and competition have been increasingly seen as a better solution to the problems that result from the old national monopolies, leading the national governments to rethink their roles in telecommunications regulation and policy making. The resulting wave of privatization and liberalization in this sector in the past couple of decades has opened the monopolized domestic market to competition. By the same token, this regulatory change in the domestic market has undermined the old international telecommunications regime, shifting its interests and goals away from coordination of joint cross-border service and toward market access and competitive provisioning of services. This shift toward the trade regime of international telecommunications has had huge ramifications for national telecommunication policy.

Until the end of the 1980s, the South Korean telecommunications sector was under a public monopoly regime. Along with internal political economic exigencies for industrial restructuring, various external forces such as international telecommunication liberalization have driven liberalization of the telecommunications industry since the late 1980s and reshaped the telecommunications sector throughout the 1990s. More importantly, those external forces are reconfiguring the relationship between international organizations and the South Korean state, the nature of the South Korean state, and its roles in the rapidly changing global political economy.

This paper aims to examine the political and economic implications of the liberalization of international telecommunications in South Korea in the 1990s and the changing roles of the South Korean state. Theoretically, Coxian international political economy offers a thoughtful framework in which international telecommunications liberalization and its impact on South Korean telecommunications can be contextualized.

THEORETICAL CONSIDERATIONS

Changing Global Political Economy, International Organizations, and the State

Since the 1980s there have been heated debates across various social science disciplines to explicate the dynamics of structural transformation in the global political economy. International political economists are some of the main advocates in articulating political and economic implications of globalization. In particular, the so-called "Gramscian turn" in international political economy studies has provided a critical lens for examining the restructuring of the relationships between social forces based in production, historical forms of states, and world order. Robert Cox (1986) made the
pioneering theoretical contribution to this approach, which points to the organization of production at a national and international level as a crucial factor in these relationships. Following Gramsci, it also recognizes explicitly the role of ideas and ideologies and presents hegemony as a fit between the material relations of production, ideas, and formal institutions.

A shift from post-war Keynesian welfarism toward a neoliberal world order has been widely witnessed since the 1970s. This neoliberal world order is characterized as the growing supremacy of capital over labor and even over the nation-states. In particular, transnational corporations (TNCs) have emerged as a main power in the structural transformation of capitalism. Strange (1996:44-5) thus maintains that the power shift from state to markets in a neoliberal world order has actually made political players of the TNCs, which have become the central organizers and the engines of growth in the global economy. This shift involves the prevalence of neoliberal ideologies in the practices and organizational forms of key political and social institutions such as state, market, and international organizations (Gill, 1995:69). It directly affects the rearrangement of material power relations and a redistribution of wealth at domestic as well as international levels.

According to Cox, the crisis of the post-war order, the Bretton Woods system, which attempted to keep a balance between a liberal world market and the domestic responsibilities of states, has led to subordination of national economies to the perceived exigencies of a global economy (Cox, 1996:298-9). Several key elements in this transformation of capitalism can be highlighted. The most salient aspects of globalization are global organizations of production and global finance that constitute a global economy. Globalizing production means "complex transnational networks of production that source the various components of the product in places offering the most advantage on costs, markets, taxes, and access to suitable labor, and also the advantage of political security and predictability" (Cox, 1993:259-60). A global financial system has replaced national systems of financial regulation and control (which were the centerpiece of Keynesian planning and macroeconomic management), establishing an integrated and unregulated, electronically connected 24-hour-a-day network (Gill, 1995:76).

The role of ideas and ideologies providing universal principles and practices is critical to understanding the changing world order, because this role is an inevitable element in the formation of a hegemony and a historic bloc. Gramsci understands hegemony as arising from shared understandings or intersubjective meanings. These intersubjective meanings play a key role in incorporating the various interests of the subordinate groups into that of the dominant group. With global production organizations and global finance, there is a transnational process of consensus formation among the
official caretakers of the global economy (Cox, 1996:301). This process produces a
consensual guideline, underpinned by an ideology of globalization, which is transmit-
ted into the policy-making channels of national governments and large corporations,
tightening the transnational networks of policy making across countries. Globalization
is represented as "finality, as the logical and inevitable culmination of the powerful
tendencies of the market at work" (Cox, 1997:23). Furthermore, it is regarded as both
irreversible and beneficial.

This process of globalization directly affects the nature of states and the way they
function in relation to other social forces at domestic and global levels. At the local
level, the impact of globalizing forces on national governments can be called "the
internationalizing of the state," in which the tension between national and global influ-
ences shaping state structures is being weighted toward the latter (Cox, 1993:260). By
this term, Cox means that the main role of the state has shifted into that of an agency
for adjusting national economic practices and policies to the perceived exigencies of
the global economy (Cox, 1996:302). It involves adjustment to "the internal structures
of states...so that each can best transform the global consensus into national policy
and practice" (Cox, 1987, 254). Put differently, the state has been pushed to become a
transmission belt from the global into the national economic sphere, whereas hereto-
fore its main task was to defend the national welfare from external forces. Although
the impact of this shift varies among countries, in an increasingly integrated global
political economy no single country can be free from these structural transformative
forces.

Gill describes this change in the form of the state as a domestic shift from the wel-
fare-nationalist state that characterized many Organization for Economic Cooperation
and Development (OECD) countries in the post-war era toward the "competition"
state, "which is premised on the relative success in the world market and on attracting
mobile capital for investment and finance through competitive deregulation and tax
breaks to foreign investors" (Gill, 1995:81). Transition from various types of state cap-
italism toward a neoliberal form of the state in many Third World countries is a good
example of this general trend. In the neoliberal state, power tends to be concentrated in
those agencies that are in closest touch with the global economy, while neoliberal dis-
courses concerning competitiveness and market efficiency gain hegemonic legitimacy
over other domestic welfare concerns within political as well as civil societies. In other
words, neoliberalism is hegemonic ideologically and in terms of policy (Cox,
1999:12).

Structural shift in global production also affects the role of international organiza-
tions. International organizations are one form of institutions that are "the broadly
understood and accepted ways of organizing particular spheres of social action" (Cox,
Cox argues that institutions are sustained within structures that are the product of recurrent patterns of actions and expectations. Because structures are the larger context within which institutions are located, any fundamental change in structure directly affects the way that institutions are organized and function. In a more concrete way, Cox understands international organization as “a process that takes place in world power relations - a process in which hegemony becomes institutionalized” (Cox, 1996:364). Put differently, the hegemonic fit between material conditions and ideas and ideologies provides conditions in which national and global institutions are established (McDowell, 1997:40). When a particular form of international institution is established, it is always rooted in the hegemonic consensus of a particular time in relation to a particular global agenda or tasks. Therefore, when international organizations operate to manage those tasks and agenda, they act to maintain and reproduce the existing hegemonic social order and relations. Hence, all the negotiations and decisions made within international organizations should be contextualized in a broader political-economic framework.

State, Economic Development and Telecommunications

The word *development* has multiple meanings and is controversial because its usage has been tied closely with various competing ideologies and paradigms. Traditionally, development has been closely associated with economic growth. Therefore, economic development has always been a primary policy goal of nation-states. As information technologies and telecommunications are considered key industrial sectors in the coming information age, the development of the national and global economies depends more and more on the development of these high-tech sectors (Sanders, Warford, & Wellenius, 1994). Castells (1993) calls the newly emerging international regime an informational economy. For a better grasp of the relationship between telecommunications and economic development, above all, it should be noted that the economic function of telecommunications in national and international economies has changed rapidly. Traditionally, telecommunications has been regarded as a social infrastructure for supporting other economic activities. This has been the main rationale for justifying state or public ownership of telecommunications.

However, rapid technological development in the area of information technologies has attached a new meaning to telecommunications with respect to its contribution to the national economy. In many developed countries, the telecommunications sector has emerged as a key industry, and its portion in national production has increased remarkably since the 1970s. This change in the economic function of telecommunications has been a crucial factor that drove nation-states and private capital to become
enthusiastically involved in this sector. In addition to its direct contribution to the economy, telecommunications also creates various positive effects for economic development. For example, it improves the productivity of other industries by providing more efficient means of production and operations. Telecommunications also expands market opportunities by linking remote regional areas and nations together as a single market. As the economic function of telecommunications has rapidly shifted from a social infrastructure to a key area of production, nation-states have been forced to redefine their role in telecommunications from a regulator and operator to a promoter and supporter.

The newly industrializing countries (NICs) in East Asia, such as Taiwan, Singapore, Hong Kong, South Korea, Indonesia, and Malaysia, have achieved rapid economic growth over the last three decades. The success of the East Asian NICs in achieving remarkable industrialization has led their advocates and critics to heated debates with respect to the main features of the so-called “NICs model” and its generalizability for the Third World (Amsden, 1989; Berger, 1988; Haggard & Moon, 1995; Jenkins, 1991, 1994; Kim, 1994; Kong 1995; Y.H. Lee, 1997; Rhee, 1994). Although not all of these authors have agreed on each feature of the NICs model for its success, most have emphasized the leading role of the state in the industrialization process. They have used terms such as “East Asian Developmental states,” “Confucian states,” or “authoritarian states” to characterize the nature of the state in this region. As Jenkins (1994) summarizes, a number of authors writing about the East Asian development model have emphasized “the high degree of autonomy of the state from a class and class fractions, and the way in which state structures in these countries have insulated economic policy-making from direct political pressures by vested interests” (79-80). In those countries, the state is capable of checking unproductive money making through land reform and through control over real estate and finance. More importantly, the state has been able to mobilize various means to set performance targets from private capital and to punish noncompliance (Amsden, 1989).

Historically, in South Korea the state has heavily intervened as a policy maker, regulator, and even entrepreneur. In other words, the South Korean developmental state has assumed mercantile and interventionist industrial policies that emphasized support, protection, and regulation (Y.H. Lee, 1997). Even though the role of private capital in South Korea’s economic growth should not be disregarded, the South Korean state leadership has been always an essential force to lead the economic success over the last three decades. As in other East Asian developmental states, the South Korean government has adopted and enforced selective promotion for particular industries, compulsory business policy, and investment designations without sufficient consent from private capital, or despite its opposition.

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A negotiated or market-based industrial adjustment among the state, private capital, and labor has rarely been pursued in industrialization. As a result, as Rhee (1994) points out, key policy instruments for state-controlled industrial adjustments have been characterized by discretionary field manipulation of financially ill-managed firms, mainly in the form of credit allocation and discretionary command. The South Korean government's overreliance on discretionary command in industrial policy has succeeded in fostering private capital by exclusively privileging selected businesses and protecting them from market competition. However, at the same time, this state-controlled industrial policy has resulted in a lot of structural problems such as distorted market structure, lack of competitiveness in domestic and international markets, and over politicization of business. With the new trends towards globalization in the international economy and the WTO regime, the South Korean industrial strategy of state-led support and protection has reached a serious deadlock. The South Korean government's post-1980s introduction of industrial restructuring through privatization and deregulation in key industries was an inevitable and proactive adjustment to the changing global economy.

The developmental state has been the most dominant player in South Korea's economic growth. Its functions are policy maker, regulator, promoter, and protector. As Y.H. Lee (1997) points out, in South Korea's economic development, the strategy adopted by the state has been to foster industrial capital by exclusively allocating economic resources to selected businesses and to protect them from the competition. This state-led economic strategy of support and protection has been very conspicuous in the telecommunications sector. As regulator and promoter, until 1989 the state had mobilized various anticompetitive and protective measures to develop the domestic telecommunications sector. Competition was prohibited in the name of natural monopoly, and monopolistic profit was guaranteed for the service providers through an exclusive segmentation of business. Moreover, various financial aids, tax exemptions, and technological research and development were provided for the industry. Under the protection and leadership of the state, the South Korean telecommunications industry has grown very rapidly. This state leadership explains how South Korea's telecommunications sector succeeded in achieving a 35 percent penetration rate that ranked South Korea 11th in the world in 1992 (Mody & Tsui, 1995:190).
INTERNATIONAL TELECOMMUNICATIONS LIBERALIZATION: GATS AND THE WTO AGREEMENT ON BASIC TELECOMMUNICATION

In a general sense, liberalization implies increased employment of market mechanisms in dealing with social, economic, and political matters. It is also commonly understood as the retreat of state or government from those areas of problems, though this is not always necessary and inevitable. When this concept is applied to trade issues, it generally refers to the removal of or decrease in various forms of trade barriers across national borders. McDowell (1994, 1997) provides a thorough conceptualization of liberalization as it relates to services and communications. Liberalization refers to analytic, policy, and institutional shifts that include provision and consumption of services as the exchange of economic commodities, market provision of services, privatization of public service providers, relaxed or minimal regulation, increased international trade in services, functional shifts in international institutions that govern service production and exchange, and a shift in the main international negotiation forums toward a liberal market approach (McDowell, 1997:38).

In this regard, liberalization implies key shifts in the role of international organizations and the forms of the state. It implies new roles and relations among international organizations dealing with services and communications issues. In telecommunications, for example, the most important roles of international telecommunication organizations have been coordination of international services and standardization. However, as WTO and the International Standards Organization (ISO) join the International Telecommunication Union (ITU) in regulation and standardization of international telecommunications, even the regulatory world is becoming institutionally competitive (Rutkowski, 1991). The main roles of these organizations are shifting toward guaranteeing free trade, competition, and open access to standardization (Hulsink, 1999:99). Liberalization also implies altered forms of state intervention, national control and guidance of services and communication sectors, and a shifting configuration of social forces (McDowell, 1997:44).

In order to explain the implications of international telecommunication liberalization, we need first to discuss why services were brought to international trade negotiations and what the General Agreement in Trades and Services (GATS) seeks to achieve. Historically, services were not recognized as tradable things like merchandise goods. As a result, each national government was able to highly regulate them and protect them from external competition. Until the Uruguay Round of 1986, service trade or its liberalization was not seen as a main issue in General Agreement on Tariffs and Trade (GATT) trade negotiations. However, as the service and information sectors
are emerging as a core area of capital accumulation in the world economy, the United States and other developed countries in which the service sector increasingly takes a larger portion in the national economy have tried to include services in GATT negotiations. In particular, the United States pressured to include the liberalization of trade in services as a negotiating goal in the Omnibus Trade Bill of 1988 (Dyer, Dyer, Hathcote, & Rees, 1997:217).

There were several reasons why the United States and other developed countries pushed to include services in GATT negotiations. Throughout the 1980s the United State pushed agreements to liberalize international telecommunications and transportation in order to encourage the private production of new infrastructure (Murphy, 1994:264). The policy makers insisted that private companies be given more opportunities and responsibilities for setting industrial standards and investment decisions. Transnational service corporations have also lobbied their governments for access to the foreign service market. Moreover, there has been a sense among policy makers in developed countries that capitalism has been shifting from the mass-production-based Fordism to the flexible post-Fordism, in which services are essential areas of production and consumption. The ideology of globalization and free trade that claims all countries would benefit from service liberalization supported inclusion of services as well. Although there was resistance from developing countries against any attempt to bring services to GATT, a compromise was struck between the developed and developing countries in 1986, and services were placed on a separate track of the GATT negotiations called the Group of Negotiations on Services (GNS) (McDowell, 1994:108).

Through long negotiation, in 1994, the GATS was ratified with the purpose of eliminating trade barriers and obstructions on services. By establishing rules and disciplines on policies affecting access to service markets, GATS greatly extended the coverage of the international trade regime. GATS consists of three major components: (a) general obligations and disciplines, (b) specific commitments, and (c) exemptions from the general obligations embodied in Lists of Article II Exemptions (Spiwak, 1999:167). GATS applies to measures imposed by Members that affect the consumption of services that originates in other Member states. Its key principle of nondiscrimination is reflected in the rules of Most Favored Nation (MFN) and national treatment. Market access is also an important basic rule of GATS (Hoekman & Kostecki, 1995:130-1).

In addition to those three major elements, GATS specifies in eight annexes how general obligations and disciplines relate to each specific service sector and modes of supply. The Annex of Telecommunications establishes the obligations of the signatories to ensure access to and use of public telecommunications networks and services that should be provided on a reasonable and nondiscriminatory basis (Noam & Drake, 1998:32). In other words, the Annex requires the governments to eliminate restrictions
on access to and use of public telecommunications transport networks and services by enhanced or value-added service providers for the provision of such services, as well as by intracorporate telecommunications users. It also provides for transparency with respect to information about conditions affecting access to public telecommunications transport networks and services. The annex also includes "the right to lease private lines, interconnect private lines and equipment with public networks and use the operating protocols of one's choice (Harwood, Lake, & Sohn, 1997:880).

When GATS was finally agreed to in 1994, 60 governments submitted their national Schedules of Specific Commitments on telecommunications, which included enhanced and value-added services. However, there was a widely shared recognition that competitive markets for enhanced and value-added services would not develop as expected unless basic telecommunications markets became liberalized as well. As a result of their experiences at the Uruguay Round negotiations, the member nations recognized the difficulties of allowing extra time to reach a deal on basic telecommunications liberalization. Although it seemed premature for the negotiating parties to reach an agreement on liberalization of basic telecommunications, they decided to continue negotiations to incorporate basic telecommunications into the GATS framework. The Annex on Negotiations on Basic Telecommunications provided a legal basis for launching a Negotiating Group on Basic Telecommunications (NGBT) in April 1994.

Beginning in May 1994, 15 meetings were held in Geneva. As expected, the United States argued aggressively that creating a procompetitive regulatory framework would be essential for ensuring market access. To this end, the United States maintained that fair and economical interconnection, transparent regulation, competitive safeguards, and effective independence of the regulator be ensured. While other countries conceded that the procompetitive regulatory framework was essential, they argued that a national regulatory situation must be respected as well. Since April 1995, major countries such as the United States, the EU, and Japan began to submit a Request List that included removal of restrictions on foreign investment and full liberalization of the resale service market.

The most significant policy breakthrough in the negotiation was the agreement to create a Regulatory Reference Paper. In order to establish a procompetitive regulatory framework, the Reference Paper addressed six important regulatory principles: (a) competitive safeguards, (b) interconnection, (c) universal service, (d) public availability of licensing criteria, (e) independent regulators, and (f) the allocation and use of scarce resources. As the negotiation progressed, a number of countries that were initially hesitant joined in submitting commitment. By April 1996, 34 offers were submitted from 48 governments, including the EU. Many of them endorsed the Reference

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Paper. Nonetheless, the negotiation could not conclude an agreement by April 1996 because the United States was not satisfied that key countries had made sufficient concessions on satellite services (Noam & Drake, 1998:37).

The negotiating parties decided to extend the deadline for concluding the negotiation to February 15, 1997, and launched a new Group on Basic Telecommunications (GBT). With many countries improving their offers and others submitting new offers, the negotiating parties finally reached an agreement in February 1997. After a long and difficult negotiation that lasted almost 3 years, 69 countries agreed to open their markets to competition by domestic and foreign telecommunications service providers, making binding commitments in the WTO Agreement on Basic Telecommunications. This Agreement encompasses many kinds of services and technologies, from submarine cables to satellites, from wide-band networks to cellular phones, and from business intranets to fixed wireless for rural areas. Not all signatories made a commitment to all these services. Nonetheless, the WTO Agreement on Basic Telecommunications achieved remarkable progress in liberalizing international telecommunications services.

**IMPACTS OF INTERNATIONAL TELECOMMUNICATIONS LIBERALIZATION ON SOUTH KOREAN TELECOMMUNICATIONS POLICY**

After an uneasy settlement of political turmoil in 1980, the new Chun military government focused its economic policy on stabilizing the inflation rate and achieving a high rate of economic growth. In the telecommunications sector, the government introduced an important structural reform to achieve administrative efficiency and promote the development of high-tech industries such as electronics and telecommunications. During this period, two important features characterized the development of the telecommunications sector. First, investment in the telecommunications infrastructure was continuously increased to solve the problem of the backlog of telephone facilities and to meet the growing demand of automation. Of even more significance, however, was that the government also considered the long-term effect of capital investment for the development of high-tech industry and the establishment of a solid foundation for the coming information society. These two long-term goals of the Chun government’s policy deserve more attention here, because they provided an important background to market liberalization in the telecommunications industry in the late 1980s.

Since the end of the 1970s, South Korea had shifted its focus of industrial policy from heavy industry to high-tech industries such as electronics and telecommunications. This change in industrial policy was primarily guided by the economic need for...
industrial restructuring. After experiencing the worldwide depression of the 1970s, South Korea recognized the weakness of its industrial structure, which was based on imported materials, capital, and technologies. As a result, South Korea invested a huge amount of money in electronics, and this industrial policy proved to be very successful. Because of its close relationship with the electronics industry, the telecommunications sector also showed rapid growth and development. In the early 1980s, policymakers and academicians began to recognize the economic importance of information technologies and the possible coming of the Information Age. As noted in the fifth five-year economic plan, the Chun government’s huge investment in telecommunications was aimed at preparing for the anticipated information society.

A second feature that characterized this period was found in changes in the regulatory structure. The Basic Telecommunications Act of 1983 and the Public Telecommunications Business Act aimed to separate the policy function and operations function and to take a step toward market liberalization. Toward this end, the government established the Korean Telecommunications Authority (KTA) in 1982 and created the Telecommunications Policy Bureau within the Ministry of Communications to carry out the regulatory functions. The KTA, a government-owned public corporation, was given responsibility for the operation and management of telecommunications, which had previously been controlled by the Ministry of Communications. This separation of the two functions was intended to facilitate fast regulatory decision and policy making and also to achieve efficiency of management. With the introduction of the KTA, the new Act also established the Data Communications Corporation of Korea (DACOM), a private company responsible for the provision of new telecommunications services such as videotex, packet-switching, and electronic mail. Even though DACOM was a private company, the South Korean government exerted controlling power on it through KTA as a dominant stockholder.

In brief, this period was characterized by a huge investment in telecommunications facilities and the separation of the regulatory and managerial functions of telecommunications. The huge investment not only solved the persistent backlog problem of telephone demand, but also resulted in a rapid increase in telephone density from 7.2 in 1980 to 24.6 in 1988 (KTA, 1990). The aim of the functional separation of operation and management was more efficient regulatory control of the telecommunications industry. This should not be understood as deregulation per se or a weakening of state power over the telecommunications sector. Larson (1995) described it as “divide and rule”; the newly introduced system first divided telecommunications services into telephone and data, and then it guaranteed the monopoly of the public corporations KTA and DACOM in the respective markets. Even though there was no systematic liberalization policy for the introduction of competition during this period, the policy-making
and regulatory changes laid a solid basis for the post-1989 liberalization. As Koh (2001) demonstrates, this was possible because the Ministry of Post could initiate a separation of policy function and operation and successfully develop the telecommunications sector by maintaining high institutional and policy autonomy from other administrative agencies and industry actors.

Until the end of the 1980s, the South Korean telecommunications sector was under a regime of public monopoly that was challenged for its lack of efficiency and accountability. With international trends toward deregulation and liberalization in the information and telecommunications sectors, there was an increasing consensus among South Korean experts and policy makers that the monopoly structure could not be retained in the emerging competitive market environment. More direct pressure to reform the South Korean telecommunications sector, however, came from outside. Trade disputes with the United States—its largest trading partner—and multilateral negotiations in the WTO consistently pressed South Korea to reform its protectionist policy regime. South Korea was designated twice as a Priority Foreign Country (PFC) by the United States, and it committed to opening up its domestic market to competition in the WTO Agreement on Basic Telecommunications. These external forces significantly affected the South Korean telecommunications policy and subsequently reshaped the telecommunications industry throughout the 1990s. In addition, the Asia-wide economic crisis of the late 1990s, which shook the South Korean economy and undermined its policy discretion over the national economy, also significantly affected the pace and extent to which South Korea has adopted liberalization policies for the telecommunications sector.

Through bilateral negotiations, the U.S. government pressed South Korea to open up its nonmonopoly telecommunications services, such as value-added telecommunications services. The United States was also dissatisfied with South Korea’s discriminatory practices, “buy-local” policies, lack of transparency, and trade secret protection (Hyun & Lent, 1999:393). The United States began turning up the heat on South Korea by carrying out Market Access Fact Finding (MAFF) and, on the basis of the findings, demanding the opening of the South Korean telecommunications market (Cho, 2004:81). Faced with South Korea’s refusal of its demands, the U.S. government designated South Korea as a PFC in 1989. Because the South Korean government was well aware that trade retaliation from its largest trading partner would badly affect its export-oriented national economy, it began to consider opening its domestic market to foreign carriers. There was also recognition among South Korean policy makers that liberalization would contribute to enhancing the international competitiveness of domestic firms. South Korea negotiated with the United States fourteen times between 1989 and 1992 and concluded with the Record of Understanding (Koh,
2001:114). South Korea accommodated most of requests made by the United States, including an opening up of the value-added network (VAN) market (Cho, 2004:83).

Following the recommendations of a task force within the Ministry of Communications, South Korea implemented a series of measures to liberalize its telecommunications sector. In December 1989, the government decided to sell up to 49 percent of the government-owned stocks of the KTA (later renamed Korean Telecom [KT]) over the next three years. Moreover, a new classification scheme for telecommunications businesses was introduced. The new competition scheme featured the monopoly of KT in local and long-distance telephone services, duopoly of KT and DACOM in international telephone services, and full competition in the value-added service market. In brief, this liberalization allowed foreign investors to freely enter value-added services, while it permitted network service only to domestic providers. Through this early experiment of restricted competition, the South Korean government aimed to make the domestic players prepare for full competition at a global level.

After the experiment of limited liberalization, South Korea took a further step toward the introduction of full competition in the telecommunications sector, adjusting to the new WTO trade regime. In July 1995, the Ministry of Information and Communication (MOIC) announced a new restructuring plan for the telecommunications industry that would introduce more comprehensive competition and accommodate the WTO Agreement on Basic Telecommunications, which was expected to conclude by April 1996 (Hwang, 1999:119-20). Its main objective was to “improve the competitive edge of the domestic industry three years ahead of a full-scale market opening under the WTO regime” (Kim, 1995, as quoted in Hyun & Lent 1999:394). It also included a plan to promote the KT as the chosen vehicle for global competition. Lastly, the government committed to create a fair and nondiscriminatory environment for competition between the dominant carrier and its competitors.

To implement this restructuring plan, the MOIC first allowed new service providers to enter the various service areas. Following the early liberalization of international telephone services, the MOIC allowed DACOM to enter the long-distance telephone service market. In June 1996, 27 new providers were licensed in seven different markets: international telephone service, personal communication service (PCS), trunked radio service (TRS), CT-2, leased lines, paging, and wireless data communications. Surprisingly, in 1997 the MOIC introduced competition in local telephone service, which had been monopolized by Korea Telecom for more than a century. The new licensed service provider was Hanaro Telecom, whose dominant shareholders were DACOM and Korea Electric Power Corporation. Hanaro Telecom began providing local telephone service in 1999. A new long-distance and international telephone service carrier, ONSE Telecom, was also licensed.

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Table 1. A Brief Summary of Telecommunications Liberalization in South Korea, 1989-1999

- Market Entry (Facility-based)
  - 1995-1997: Licensing (Prior Notification)
- New classification scheme introduced (1990):
  - KT monopoly (local/long) / Dacom (international) / Full competition (value-added service)
  - New restructuring plan introduced (1995) – New Entry (27 new providers)

Source: adapted from K.J. Lee (2002).

The WTO Agreement on Basic Telecommunications has significantly affected the South Korean telecommunications policy. South Korea reserved participating in the negotiations until the Protocol and the Common Agenda were proposed by Canada in 1997. South Korea had declared officially that it had not decided whether it would participate in the negotiations, although it would join the discussion regarding the basic structure of the negotiation. However, South Korea was requested to participate by other countries, including the United States, and subsequently decided to join the negotiation on basic telecommunications in 1993 when the Uruguay Round came to a settlement. The main reason for South Korea joining the negotiation was that it recognized that the domestic telecommunications industry would need restructuring and that the negotiation might contribute to this task. Given its export-oriented industrialization strategy, there was a concern that South Korea would be isolated from the new international trade regime unless it joined the negotiation (KISDI, 1997:6). Furthermore, multilateral negotiation was favored by most developing countries over bilateral negotiation, because the former could minimize asymmetry of bargaining power.

South Korea improved its commitments as the negotiation proceeded. In its final schedule of commitment, submitted in February 1997, South Korea increased the foreign equity participation limit on facility-based suppliers of both wire-based and mobile services from 33 percent to 49 percent after 2001. Foreigners were allowed to increase their equity in KT from 20 percent to 33 percent after 2001. They could become the largest shareholder in facility-based services, excluding KT, from 1999. The latest commitments also permitted up to 100 percent market access to, and 49 percent foreign equity participation in, domestic voice resale as of 1999 (Wada & Asano, 1998:218). South Korea endorsed the Regulatory Reference Paper as well.

As the WTO basic telecommunications negotiation was concluded successfully, the South Korean government amended the Telecommunications Business Act in August 1997 to implement its commitments in the WTO Agreement. Major amendments were made to relax restrictions on foreign investment and ownership. The pre-existing provi-
sion prevented foreign carriers from getting into the wire-based telephone service, whereas it permitted them to own up to 33 percent of total stocks in mobile telecommunication services. According to the amended provision, foreigners were allowed to own up to 33 percent of total stocks in both wire-based and mobile telecommunications services, and the proportion would be raised to 49 percent in 2001. In addition, foreigners were allowed to own 20 percent of the KT stocks in 1998 and up to 33 percent in 2001. After South Korea committed to opening up its resale market, a new provision was added to create a category of special service provider (SSP), which would not be allowed to build its own network to accommodate the service.

In late 1997 and 1998, the Asian financial crisis provided an unanticipated chance for foreign investors and carriers to enter the Asian basic telecommunications market, which even under the WTO Agreement was still protected from competition through various regulatory measures. The economic crisis that first swept Southeast Asia led the South Korean government to seek an IMF rescue package in November 1997. During this economic turmoil, the primary policy objective for the South Korean government was to promote foreign capital investment in any industrial sector. To attract foreign capital and facilitate restructuring by the private firms, South Korea amended the Telecommunications Business Law in September 1998. This amendment further relaxed foreign ownership restriction rules to fully open the domestic market to foreign competition two years prior to the original schedule of the WTO Agreement. It also lifted various restrictive measures that hindered competition among the domestic carriers to encourage private capital investment.

**NEW GLOBAL POLITICAL ECONOMY, INDUSTRIAL POLICY, AND THE SOUTH KOREAN STATE**

Along with internal political and economic needs for industrial restructuring, various external forces have driven liberalization of the telecommunications industry since the late 1980s. In particular, trade conflicts with the United States were pressing South Korea to consider opening the domestic market to competition. At the same time, GATS negotiation and the WTO Agreement on Basic Telecommunications left few options for South Korea with regard to the speed and extent to which it adopted liberalization measures in the domestic market. Moreover, the financial crisis known as the IMF crisis pushed the government further to seek drastic liberalization in almost every economic sector, including telecommunications. There is thus no question that the post-1980s structural changes in global political economy and the external forces mentioned above were the primary reasons forcing the South Korean government to shift its pro-
tectionist industrial policy toward a more open and pro-competitive one throughout the 1990s.

Intertwined with the national political economy, those external forces and, more generally, the structural transformations in the global political economy have significantly affected the nature and roles of the state in South Korea. As described earlier in this paper, the South Korean state has heavily intervened as a policy maker, regulator, and even entrepreneur. Although the role of private capital in economic growth should be considered, the South Korean state leadership has always been the essential force leading economic success over the last three decades. It has adopted and enforced selective promotion for particular industries, compulsory business policy, and investment designations without sufficient consent from private capital, or despite its opposition. The South Korean government’s overreliance on discretionary command in industrial policy has succeeded in fostering private capital by exclusively privileging selected businesses and protecting them from market competition. However, at the same time, this state-controlled industrial policy has resulted in many structural problems such as distorted market structure, lack of competitiveness in domestic and international markets, and over politicization of business.

As the Cold War that allowed economic protectionism for South Korea was over and national economies were rapidly integrating into the laissez-faire global economy, there was a consensus among bureaucrats and policy makers that its industrial strategy of state-led support and protection could no longer be retained. Moreover, the aggressive trade demands of the United States, the creation of a new international trade regime, and the WTO assured South Korea that the adoption of a more open and market-based industrial strategy would be inevitable for further economic development. Consequently, since the 1980s the South Korean government has consistently tried to introduce competition into the domestic industry and has, though reluctantly, opened its market to foreign companies. Nonetheless, it was never a wholesale liberalization until South Korea was put under the monitoring and management of the IMF during the financial crisis. Instead, it was carefully controlled and scheduled by the government through various protectionist measures, for example, the control of foreign currency and domestic and foreign capital investment through the central bank. In this sense, the post-1980s industrial restructuring through privatization and deregulation was an inevitable but proactive adjustment to the changing global economy.

The main objectives of the new industrial policy were first, to participate in the new international economic regime by meeting the requirements of the WTO, and second, to strengthen the competitiveness of domestic industry by fostering competition among domestic firms and then between domestic and foreign firms. Toward this end, the South Korean government has introduced various privatization programs with the
relaxation of regulations in public or state-owned sectors, including telecommunications, since the 1980s. Therefore, the post-1980s industrial policy should not be understood as a passive response to outer forces. It should also be regarded as a proactive adjustment to the changing economic environment. The post-1980s privatization of the telecommunications sector in South Korea should also be understood and assessed in this broader context. In the South Korean telecommunications sector, state leadership and power have been overwhelming because of the economic importance of telecommunications in industrialization. Until 1989, the South Korean telecommunications sector was almost wholly state owned, and it operated under the strong control of the state. However, globalization of national economies and worldwide deregulation of telecommunications has forced South Korea to reform the telecommunications sector to meet structural changes in the global telecommunications sector.

The role of state leadership has changed to meet the needs of the changing policy environment. With regard to telecommunications, in the state monopoly or public monopoly, the state was the regulator, operator, protector, and large buyer of services. However, as competition was introduced and national policy became bound with international agreements, direct intervention in the market and subsidies for selected domestic firms have raised complaints from other domestic competitors and started trade disputes with foreign countries. A series of administrative deregulations has made state intervention into the sector more difficult. As a result, the state’s leadership and roles have shifted to promoting the demand for services; public relations to diffuse information to the general public to expand the market; and, more importantly, encouraging competition between firms to reinforce international competitiveness of domestic firms.

By the same token, throughout the 1990s, during and even after the financial crisis, the power of international organizations such as WTO, IMF, and the World Bank over South Korea was considerable, and the influence of these organizations significantly undermined the autonomy and discretion of the South Korean government over its national political economy. Because South Korea made binding commitments to these organizations when it signed the international agreements and sought the IMF rescue package, many of its economic activities were heavily monitored and guided by those commitments. Given that a particular form of international institution is rooted in the hegemonic consensus of a particular time in relation to a particular global agenda, there is no doubt that those commitments reflect dominant policy discourses such as “globalization” and “market liberalism,” which are catch-phrases of post-Cold War neoliberalism. Through international organizations and their principles, those hegemonic discourses permeate national policy, on which local governments’ political and economic practices are based and that also affect various local institutions.
The South Korean telecommunications sector is not an exception to these changes. Although the South Korean government successfully managed competition between domestic companies and delayed foreign entrance into the domestic market throughout the 1980s and 1990s, this strategy has been increasingly difficult to maintain because of the government’s commitment to the GATS and the WTO Agreement on Basic Telecommunications. Even in domestic competition, the state cannot exert the same controlling power over the domestic companies as it did in the past. In this global order, any single practice of the nation-state is increasingly tied to the interests of those who reside outside its national territory.

CONCLUDING REMARKS

The process of globalization, which is rapidly integrating local political economies into a single global market economy, has driven nation states to surrender much of their sovereign power to supranational institutions, international organizations, and private capital. This has been the case even in developing countries in which the state has retained almost absolute power over the political economy. In these countries, since the 1980s, transnational corporations and international organizations such as IMF, the World Bank, and WTO have increasingly gained power and control over the economy through foreign investments and financial aid. In this new world order, the priority of public policy is meeting the perceived exigencies of the global economy and preventing dislocation of the local economy from the hegemonic global order. This power shift has significantly reconfigured the nature of the state, as well as the state’s relationship with international institutions and its roles in industrial policy.

Developing countries have sought liberalization of telecommunications for various reasons and with asymmetric success since the late 1980s. Much of the impetus for deregulation, privatization, and liberalization originates within dominating firms in developed countries that are driving the internationalization of national economies. Therefore, telecommunications liberalization in developed countries has been spurred mainly by internal forces to meet the needs of transnational telecommunications companies. In contrast, the restructuring of telecommunications in developing countries appears to be driven by external forces. Recognizing that they have few policy options against these external pressures, some developing countries have tried to take an initiative in the restructuring of telecommunications by adjusting actively to the new telecommunications environment. In light of the discussion above, the liberalization of telecommunications in South Korea in the 1990s can be seen as a case of inevitable but active adjustment to internal and external forces on developing countries.
As discussed above, this adjustment was made through accommodating the requests of the United States and the WTO and, more importantly, through introducing competition by which the government intended to reinforce the competitiveness of domestic firms. This change in industrial strategy significantly affected state roles and controlling power. Although this change allowed more flexibility to private capital and autonomy in doing business, state leadership and power were still dominant in the South Korean telecommunications sector. It can therefore be argued that strong state leadership achieved rapid growth in the telecommunications sector as well as a high penetration of telecommunications services in South Korea, even when global forces put huge pressures on South Korea throughout the 1990s. However, it is absolutely unquestionable that the role of the state and the way the South Korean state exerted its power over its telecommunication sector changed. Witnessing these changes, many scholars have argued the end of the East Asian development model, whose key feature is the leadership of an authoritarian developmental state in economic development and the rise of the regulatory state or the competition state. Reflecting this transformation of the state, during the 1990s and 2000s the South Korean government has increasingly reduced its intervention in the telecommunications sector, limiting its role to that of mediator to guarantee an environment of fair competition among domestic as well as foreign firms. This change has accelerated the restructuring of the telecommunications sector, exposing domestic firms to more competition in domestic as well as global markets.

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