GLOBAL STANDARDS AND THE RECENT ECONOMIC REFORM IN KOREA

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Abstract: This paper reviews and evaluates the Korean government's recent reform efforts aimed at recovering its economy from crisis and bringing its governance system closer to global norms and standards. Here the so-called global standards are classified into the following three groups: The first group of global standards refers to certain economic principles or norms such as openness in trade and investment. The second encompasses a certain related set of rules of conducts, and standards of behavior governing the conducts and behavior of the national financial system and corporate sector. The third relates to certain values and norms such as environmental and labor standards that are fashionable in the era of continued economic prosperity and social well-being. After assessing the Korean government's reform performance in these three areas, which turned out to be far from satisfactory, I have singled out the government's deep-rooted habit and practice of discretionary intervention as the most important obstacle that has wreaked havoc with its basically market-oriented policy and institutional reform efforts.

INTRODUCTION

Today we live in a very rapidly evolving global economy. The global economy is an economy that presents two contradictory faces-new technologies, greater wealth, and rising living standards for millions of people; and at the same time, new instabilities, new risks, new uncertainties-as we have seen so starkly during the recent financial crisis. There are many critics of globalization and its role in the present crisis. But globalization is not a policy to be judged right or wrong. It is a process driven by the realities of economic and technological change. Now what we see is the digital revolution that is shaping the global economic landscape. The advent of a borderless economy has enormous potential to generate growth, to spread the benefits of modernization, and to weave a more stable and secure planet. But it also challenges the status quo. It demands that we adapt. The real issue before us is not the debate about globalization but to see how technological process can be better channeled to promote more growth, more trade, and greater modernization.

Critics of globalization point out that globalization would undermine and severely constrain national sovereignty and policy autonomy. For sure, in the era of globalization, there remain few purely 'domestic' issues. Competition for international investment encouraged by the activities and mobility of multinational enterprises means that most traditionally domestic policies such as education and training, taxation, social protection, economic regulation, or labor legislation, have become international. Even a nation's public management policy is a matter of concern to its partners because it affects efficiency and policy effectiveness. The upshot is that policies must increasingly be made more consistent or competitive with trends in main trading partners.

And there are some areas that governments simply cannot control. Information technology

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has effectively eliminated the capacity of countries to isolate themselves from the world outside. Control will be difficult, if not impossible, to achieve because the information revolution has democratized access to technology. An important result is that free speech and civil liberties are becoming increasingly international. In addition, participation in international organizations or the adoption of international agreements puts limits on policy options available to governments, or 'ties their hands.' It may even require modifications in long-standing and highly valued domestic policies and practices.

Does that mean, however, governments have lost control? No. Interdependence is clearly narrowing the degree of domestic policy independence, but more importantly, independence has often been abused as a convenient excuse for adopting trade barriers and delaying compliance with the international agreements. Moreover, in many areas, unilateral action may not be the most effective way to achieve policy outcomes or to meet the needs of citizens in an interdependent world, either. For example, national autonomy in the exploitation of resources such as fisheries would inevitably result in the severe depletion. In combating environmental degradation, international crime, and drugs trafficking, the interests of individual nations can only be protected by collective action.

Furthermore, international cooperation opens up new opportunities for progress, such as sharing policy strategies, or working together to establish rules of the game. For sure, the politics of managing globalization is not easy. The process of global economic integration involves cultural and social dislocation. Many people resent and resist the changes, and some may wish to disengage from the process altogether. But the fears associated with globalization may be short-sighted. Behind every challenge is an opportunity. Playing ostrich and adopting a head-in-the-sand response to globalization will not permit governments to avoid its impacts(OECD, 1996). Instead, it will mean missing out on the opportunities globalization offer. The global policy environment has some potential to actually strengthen government effectiveness and policy outcomes. The challenge is to keep an open, free trading system which accommodates diversity and give due consideration to social cohesion(Lawrence et al., 1996).

From this rather optimistic perspective on globalization, I will try to review and evaluate what reform efforts have been thus far made by Korean government with a view to making its economy recover from crisis promptly and to bring its governance system closer to global norms and standards. And then I will analyze why these policy and institutional reforms have been faltering and point out that the real challenge facing Korea government is to reform its policymaking processes, practices, and institutions and to build a firm base for policy coherence.

GLOBAL STANDARDS : DEFINITIONS AND CATEGORIZATION

Just as globalization means different things for different people, so do global standards. More importantly, while the term is used very often and widely, what global standards specifically refer to remains very unclear. Global standards can be defined as certain standards that are accepted by a growing number of countries as guiding principles for changes in national policies and institutions. These standards have been evolving as such as national policy and institutional practices tend to converge around them. The driving forces have been 1) the triumph of market forces in the highly integrated world economy, and 2) diffusion of best practices and competition among many institutional forms, and 3) the internationally negotiated or coerced choice of one set of rules and institutions(Berger, 1996, p. 16). Along these lines, I think it is possible to classify principles, norms, rules and procedures, and standards of behavior which can be brought broadly under the rubric of so-called global standards into the following three categories.

1) First, one group of global standards refers to certain economic principles or norms such as openness in trade and investment that has come to enjoy worldwide acceptance and acclaim to a degree not seen ever before. Indeed, in human history, there has been no such period as ours for which so wide and strong a support for open trade and investment has been mustered not only in the developed but developing world. So many countries, in so many parts of the world, with such different economic systems, and at such different stages of development have all headed in the same direction: the greater market openness.

More strikingly, many developing countries that adopted outward-looking economic development and trade policies earlier in their development process turn out to be those that have benefited most from the open world trading system which has flourished under the auspices of the GATT and the WTO. Nineteen of the world's top thirty exporters, counting the European Union as a single entity, are now developing countries. Seven of the top twenty recipients of foreign direct investment are in the developing world(Bergsten, 1999).

But the challenge against the open world trading and investment system has never ceased even in the era of globalization. A substantial backlash against globalization is gathering force in some quarters. Surprisingly, while very little negative reaction against trade and investment liberalization has surfaced in the East Asian countries that have been hit hardest by the global financial crisis, protectionist sentiment seems to be reemerging in the developed world which have continued to record strong economic performance. The abrupt failure of the recent Ministerial Conference of the WTO in Seattle in November/December 1999 exemplifies this anomaly, which was derailed, most importantly, by enormous pressures brought to bear upon the WTO by many environmental and labor groups of the developed countries and the U.S., in particular. This anomaly has many complex ramifications not only for the future of the open world trading system itself which depends so heavily on America's commitment and its pivotal role as its guarantor and enforcer. But it has even graver implications for the future course of trade and investment policies in many developing countries that would possibly be subject to some of its possible negative repercussions, to which point we will come back later.

2) The second group of global standards encompasses a certain related set of rules of conducts, and standards of behavior governing the conducts and behavior of the national financial system and corporate sector. Accelerating pace of capital mobility epitomizes the current trend of globalization. And capital mobility will have more far-reaching consequences than trade openness(Milner and Keohane, 1996: 18). Especially as trade in services expands rapidly and foreign direct investment and international capital moves almost freely across borders, behind-the-border restrictions and regulations, rather than border

controls, on trade and the operation of business are becoming more important. Consequently, on one hand, such needs to make national competition policies compatible, to make available more favorable national treatment to foreign goods, services, and business entities, to harmonize taxation rules and procedures, and to make protection of intellectual property rights more effective arise as immediate and high priority issues. In addition, in order for trade and investment not to be hampered or distorted by capricious and discriminatory application of national rules and regulations, such attempts as mutual recognition of technical regulations and standards tend to attract increasing amount of policy attention.

On the other hand, as capitals move at an accelerating pace, and multinationals could change their locus of operations much easier than ever before, national governments find themselves locked in a position in which they have to refrain themselves from intervening arbitrarily into market mechanism and the private sector. In other words, they have come to be mindful of the fact that such interventions tend to produce deleterious and dampening effect on their capability to compete in the race of inducing foreign capital. In this context, guaranteeing openness and securing transparency in policy decisions has become an imperative for all national governments. In a similar vein, it has also become necessary to make allocative decisions by financial institutions, on one hand, and investment decisions by large and major firms, on the other, to make information reliable and credible. The adoption of internationally accepted accounting standards, and the strengthening of anti-corruption drive have been accentuated in this context.

This group of global standards represents most vividly the new kind of forces that the current globalization process unleashes. Today, each country finds itself under some pressure to bring its institutions and systems closer to new ideas and international best practices in various fields and realms. Certainly, the issue of convergence is complex, as they touch upon the matter of cultural diversity, or involve an element of trust with each other. Consequently they continue to be subject to some kind of controversy with differing degrees of severity. For example, the issue of corporate governance contains a large dose of tradition and culture. By contrast, the norm of transparency that assumes saliency, among others, in connection with national governments' economic policy-making, application of accounting rules and procedures, and anti-corruption in government procurement is widely and strongly shared.

3) The third group of global standards relates to certain values and norms that are fashionable in the era of continued economic prosperity and social well-being. Environmental and labor standards are good examples. These standards aim at improving living conditions for human beings(and the nature) on the planet which is growing smaller and smaller thanks to the rapid development and innovations of information and telecommunications technology. In the case of environmental norms and standards, it is well understood that some kind of international cooperation is necessary, given the problem of externalities. By contrast, in the case of labor standards, humanitarian considerations stand out.

However salutary and laudable are the spirits and aims of these standards, which are usually reflected in the form of international conventions, however, opinions differ widely and deeply as to how to solve those problems. There is a divide between the developed and developing countries. More specifically, as this type of global standards lacks effective mechanism to make countries cooperate with one another in solving common international problems, many attempts have been made and tried to harness trade sanctions in some way or another to make compliance with the international norms and obligations more credible. But this approach proves not only deficient theoretically, but tends to heighten and intensify tensions and conflicts between developed and developing countries.

The grouping of global standards seen in the above is only illustrative. Categorization on many other bases is possible. One may be the extent of establishment. For example, some part of IMF conditionality provisions has been mooted with respect to their appropriateness or effectiveness. Likewise, some portion of the wide-ranging WTO rules and procedures is well established, but others are still evolving and thus are short of such status. The degree of coerciveness in terms of enforcement mechanism may serve as another criteria. Some of the global standards such as the WTO rules and procedures and the International Environmental Conventions are coercive, but many others are accepted or complied with only voluntarily. The distinction is also possible as to whether certain global standards are substantive or procedural ones, and so on. Which sort of categorization makes sense depends certainly on the purpose of analysis. As this paper's analytical focus is placed on examining the potential impacts of global standards on the national interest, it seems reasonable to rely, wherever possible and helpful, upon the category made above.

GLOBAL STANDARDS IN THE PROCESS OF STRUCTURAL REFORM IN KOREA

Over the past two years Korean economy has bounced back from the recent financial crisis far more quickly than was generally expected. Economic growth rate surged to 10% in 1999 from its historic low rate of negative 6% in 1998. Foreign exchange reserve soared to above $80 billion(after the earlier partial repayment of IMF loans) due to a ballooning current account surplus and a phenomenal increase in foreign capital inflow. Bringing exchange rates kept artificially high to market level and the liberalization of foreign capital investment regime have contributed greatly to work this 'miracle.' On the other hand, however, it cannot be denied that many structural reforms and restructuring efforts have been undertaken, the contribution of which is under debate. Nonetheless, it would be necessary and important to review even briefly what really happened in the process of structural reform in Korea over the past two years and what roles have global standards played in the process

Liberalization of Trade and Investment Regimes

In Uruguay Round negotiations, Korea has bound tariff rates for 92% of total tariff items, including many sensitive items such as rice. This level is much higher than the average rate of 59% for all the other developing countries. And the average level of tariff rates reached 8.47% in 1998. As the National Trade Estimate of the U.S. pointed out, however, Korea's market proves one of the toughest one alongside China, Japan, and the EU. The main complaints leveled against the Korean market thus far is invariably the lack of transparency in administering quantitative import restrictions, import certification and conformity assessment procedures, and also in enforcing competition policies and intellectual property rights laws.

Relatively higher barriers to trade in services due to opaque regulations on ownership and extremely complicated licensing procedures have constituted another major area that has attracted strong criticism.

In addition to these criticisms and complaints, Korean felt the absolute need to make commitment to market-oriented reform credible with a view to bolstering the level of international confidence in economic management in the wake of financial and economic crisis. It was against this background that the government abolished the much-criticized import diversification program(which has discriminated imports mainly from Japan), and has taken a variety of steps to streamline and improve the transparency of the import certification procedures. Also the Korean government not only resolved the pending Korea-U.S. auto imports dispute promptly in order not to annoy the U.S. government, but announced that it would not adopt any longer such opaque policy measures aimed at restricting luxury imports as tax investigation against the buyers of foreign autos. At the TV meeting with the people, the President himself made an impressive statement that "I want the people to make choices not on the basis of nationality but of price and quality of products."

Overall, however, Korean government's repeated promises to let foreign competitive pressure have its full force notwithstanding, its attitude toward trade policy has not been changed much. This promise has been repeatedly made simply on principle alone. Whenever a specific trade policy issue pops up, the government has been invariably caught and overwhelmed by protectionist politics.

The recent trade dispute with China over garlic imports is a case in point. As the price of garlic precipitated last fall, in which case the imports from China did not constitute a significant factor, the government adjusted the tariff rate on garlic imports from China upward from 30% to 315% as a temporary measure pending domestic injury investigation by the Trade Commission. Later, it is known that right before the general election in April, some leading members of the ruling party intervened and put pressure on the Commission to finally recommend safeguard action. And as a result, the temporary safeguard measure came to be formally undertaken. Despite Korean government's belated offer to make some compensation, China got vexed and took harsh retaliatory action by banning imports of cellular phone sets and polyethylene products, the estimated loss on the part of affected Korea exporters amounts to 57 times that of garlic imports from China last year.

By contrast, Korean government's effort to liberalize capital market and foreign direct investment regimes has been very impressive. First of all, in an effort to attract more foreign capital, it has accelerated the opening of its capital markets, eliminated the ceilings on aggregate and individual foreigner's equity ownership, eased restrictions on corporate financing from abroad, and lifted all limits on foreign investment by adopting negative list system.[1] In addition, in an effort to open domestic industries to foreign investment, the government has taken a bold step to permit foreign hostile M&A of domestic firms. The old de facto approval system for FDI has been replaced by a notification system, which is handled by foreign exchange banks and overseas offices. Thanks to these institutional

1) As of October 1999, the rate of FDI liberalization reached 99.8%, only 21 out of 1,148 industries are remaining on the restriction list. They include broadcasting businesses and air traffic control and regional marine transportation business.

changes, the FDI inflow has continued to record a phenomenal growth since late 1998. Total FDI for the past two years(on a notification basis) reached above $24.4 billion.

Efforts to Converge Corporate Governance Structure and Business Practices to Global Standards

There is a long list of reforms to laws, regulations, and business practices aimed at improving the efficiency with which Korean economy marshals its resources. They include making banking systems healthier with more foreign involvement, less meddling with the local price of capital, more transparent dealings between government and the private sector, a better system for handling bankruptcy, and the provision of incentives for people to take responsibility for their economic decisions.

These reform measures represent a logical response to a widely shared analysis that the financial crisis was caused by unsustainable rapid(and probably excessive) investment in fixed assets financed by excessive borrowing, the consequent poor profitability(reflected in low and declining returns on equity and capital), and the lack of prudent financial practices. Crony capitalism, which had been manifested in implicit government guarantees and poor banking supervision, and which in turn led to poor decisions about credit allocation in the banking-dominated financial system, was found to lie at the core of the crisis (Krugman, 1998). Despite the advent of an era of increasing capital mobility, the fact that corporations have not been adhering to global standards in creating shareholder value was also recognized(Pomerleano, 1998).

In recognition of these problems, Korean government has launched a massive financial and corporate restructuring drive. First of all, to speed up the normalization of bank management, the newly instituted Financial Supervisory Commission(FSC) reviewed rehabilitation plans submitted by banks which did not meet the BIS capital adequacy ratio(8%). Through this review, 10 banks that failed to prove the viability of rehabilitation plans were closed or merged. For those banks that met the BIS ratio, the FSC constructed restructuring plans based on its assessment of those banks' management results after the closing of their semiannual accounts. The government has attracted more capital into banking sector by modifying laws governing the shareholding structure of the banking institutions. To attract more investment in the equity capital by foreign financial institutions, limit on overall and individual shareholders' equity holdings in banks was substantially liberalized with a view to encouraging joint ventures or M&As between foreign and domestic financial institutions. In addition, the Banking Act has been amended to allow banks to elect foreigners as board directors.

Efforts to clean up the banking messes have been under way ever since the crisis struck. But recapitalizing banks and buying up bad loans failed to cure the underlying problems. Without more foreign competition and an injections of new enterprises, banks will always remain suspect(Economist, 1999. 8. 21). In this regard, Korean government took steps to open up banking sectors to foreigners. But after two years, far too little has happened. Negotiations to sell two most ailing banks-Seoul Bank and Korea First Bank-have been stalled again and again up until recently despite the government's special offer for loss-sharing and layoffs. The restructuring of non-bank financial institutions has followed a similar sequential pattern, and as a result, 307 such institutions have been closed or merged, which represents

14.8% of the total.

The need for enhanced regulation and supervision of the financial system were also unmistakable. The FSC(and Financial Supervisory Board under its direction) has instituted stricter review of capital adequacies, exposure control, provision requirement for possible losses, prompt corrective actions(PCA), auditing of financial statements by independent auditors, and improved reporting. It has also made the compliance with these systems mandatory for all financial institutions. In addition, accounting practices and disclosure rules have been tightened to meet international standards. Financial statements of large financial institutions would be audited by internationally recognized accounting firms.

Since the long-term sustainability of the financial system depends critically on the incentive framework, shareholders are made to bear the brunt of losses, and management are required to take responsibility for poor management in order to reduce the moral hazard problems. The government's announced plan to gradually reduce the current full protection of depositors from the start of 2001 was a step toward this goal. Recent plan to adopt fully the market pricing system for bonds follows the same spirit, although a more immediate goal is to help major investment trust companies that hold huge amount of trust funds with a guarantee of fixed return for investors and are thus in deep trouble.

Turning to corporate restructuring, the objectives were two-fold: reduction of corporate debt and improving transparency and governance structure. In Korea, the thirty-largest chaebols account for about a third of total value added and fixed assets in the manufacturing sector. Although they were the engine for economic growth in the past, it was also true that their heavy borrowing and overly unproductive expansions in non-core business led to high debt-equity ratios. In January 1998, in self-recognition that their imprudent managerial practices contributed directly to the financial crisis, and under some jaw-boning of the government, the thirty-largest chaebols pledged to undertake restructuring measures, including steps to: (1) enhance transparency of their business management, (2) eliminate cross-debt guarantees, (3) improve their capital structure, (4) focus on core business, and (5) increase the accountability of owners cum managers. On its part, the government promised that it would no longer take the lead in directing business activities of large enterprises.

In order to enhance the reliability of corporate financial statements, the FSC set new accounting and auditing rules in line with internationally accepted standards in October 1998. In addition, all listed companies are required to establish committees of external auditors. Also chaebols have to produce combined financial statements by 1999 to provide comprehensive corporate information to investors, thus providing regulators, shareholders, and the general public with a more credible basis for performance evaluation. In line with the IMF and IBRD Agreement for improved governance of Korean companies, the government has pursued structural adjustment. As of February 1998, listed firms are required to appoint outside directors to promote effective monitoring on behalf of public shareholders, to ensure that management pursues maximization of equity values and reduces conflicts of interests between management and outside investors. Legal protection of the rights of minority shareholders has also been strengthened.[2] The

2) One notable development on this front has been the emergence of activist group called the People's Solidarity for Participatory Democracy. This 200-strong citizen group played a pivotal role in forcing

representation requirement for action suits against managerial abuse had been reduced from 1 percent to 0.01 percent. The revised Security Exchange Act allows any shareholder with at least 0.5 percent (previously 1 percent) ownership the right to ask the firm to dismiss director(s) or auditor(s) and, with 1 percent (previously 3 percent) ownership, to review financial accounts of the firm.[3)]

Additional measures for the improvement of corporate governance have been implemented. The government amended the Commerce Law to simplify M&A procedures and to shorten the appeal period for mergers from two to one month. Legal liabilities of major shareholders who are involved in management in any form, have been strengthened to increase their accountability for management by way of introducing a de facto directors system and the cumulative voting system. In view of the growing importance of roles played by institutional investors, they are permitted to exercise their voting rights.

Since the extremely high level of corporate debts was one of the main causes of the crisis, the government required chaebols to eliminate their existing cross-debt guarantees between subsidiaries by the end of March 2000. In addition, it asked them to reduce corporate debt-equity ratios to international levels (around 200%) within two years. To achieve this goal, the government asked chaebols and their main banks to conclude the capital structure improvement contracts. And to help them raise capital, the government lifted restrictions on capital fusion in February 1998. It also abolished deductions of debt financing interest payments on excessive borrowing from taxable income as of the fiscal year of 2000.

In addition, chaebols have been strongly urged to focus on core business, while exiting from non-viable business lines by way of selling off certain subsidiaries. To assist this process, the government streamlined bankruptcy laws, and facilitated M&A process including the liberalization of foreign takeovers. Indeed, the government's restructuring drive has put dozens of firms on the M&A market such as Daewoo's consumer-electronics unit and Samsung's construction equipment business. But many other deals have been frustrated or blocked for a variety of reasons, including the disclosure of information to competitors, reluctance to adopt performance-related pay system, clandestine practices of recruiting trained Korean mangers from internationally merged firms, discriminatory taxation, and idiosyncratic accounting rules (Economist, 1999. 7. 3).

It has been the government's promise ever since that it would not intervene directly in the restructuring of the corporate sector, especially chaebols, departing from the past practices in which it was involved directly in corporate restructuring, deciding who and how to restructure. But the government, out of impatience, has reneged on its promises from time to time. The prominent example was the so-called "big deal" policy, through which the government pushed major chaebols in the same business lines to change hands in line with each chaebol's comparative advantage. Many criticisms have been leveled against this policy

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the SK Telecom to appoint outside directors and an independent auditor, and to reform shareholder voting. It has scourged top chaebols' imprudent management and largesse. For example, it successfully aborted Hyundai Heavy Industry' decision to buy a loss-making hotel from an affiliated group (Economist, 1999. 3. 27).

3) With the help of these revisions, for example, Tiger Fund of USA has already obtained a right to get approval of major investment and to elect two members to the board of SK Telecom, the most profitable mobile telephone company in Korea (Ministry of Finance and Economy, 1998: 24).

on grounds that it goes against the market principles and runs counter to another not less important goal of preventing industrial concentration.

As the OECD report(2000: 106) pointed out, "more interventionist approaches, such as chaebol-specific regulations and enforcement procedures and government influence over restructuring decisions, risk creating new moral hazard and credibility problems, and leading to solutions that are not sustainable in a competitive market. The government has identified these sorts of non-market solutions as transitional, yet it may be hard to withdraw from them, since the traditions of chaebol-state interaction is so deep, and since the political impacts of restructuring decisions can be large." An explicit commitment to depend on market forces in chaebol restructuring, and intensified efforts to establish the basic market institutions needed to exert competitive disciplines, would speed up change and reinforce the credibility of the new market environment in Korea. In this sense, the OECD report's conclusion that "one of the biggest challenges is changing the habits of intervention and control within the government itself" is well taken (p. 102).

Convergence toward Other Global Norms and Standards

The economic crisis has provided an opportunity to enhance labor market flexibility and restore market mechanisms, the workings of which had been seriously impeded by strong and sometimes militant labor demands for job security and resistance to corporate restructuring for any reasons since 1987. Taking advantage of crisis situation, in which the unemployment rate soared from 2.6% in November 1997 to 6.7% in April 1998 and massive layoffs, legal or illegal, were hard to be resisted, the government initiated a series of reforms. First, it legalized the redundancy layoffs when it is necessary and unavoidable for reasons of emergent managerial situations including M&A. Certainly it was not without a proviso. Such firms are required not only to report to the labor authority concerned, but to exert its utmost efforts to avoid such layoffs, to select workers to be laid off fairly, and to have prior consultations with those. The government also relaxed restrictive legal provision on manpower leasing services in order to make firms facing changes in demand for labor types adjust employment more flexibly at considerably lower costs.

To appease labor and facilitate the labor market reform and economic recovery, the government expanded social safety nets, which are to be found usually in advanced countries, in unprecedented scale. The Wage Claim Guarantee Act was legislated. Employment insurance system has been enhanced both in terms of eligibility and duration of providing benefits. One striking aspect of labor market reform in Korea should be noted here. It has been predicated, in large measure, upon the progress of corporate restructuring focused on improving financial and managerial transparency and accountability.

With respect to labor rights, Korean government continue to expand the lists of the ILO Convention ratified. It has reached 11 Conventions, with the recent ratification of the ILO Convention concerning Tripartite Consultations to Promote the Implementation of International Labor Standards(No. 144) and the Convention concerning Vocational Rehabilitation and Equal Employment Opportunities for Disabled Persons(No. 155). In addition, in response to the OECD's gruesome evaluation, which had been undertaken on the occasion of

Korea's entry into the OECD in 1996, that Korea's labor laws and industrial relations didn't fully meet international standards, the government has held regular reviews and meetings with the competent body of the OECD and continues to revise Labor Laws. Although the government does not fully espouse the ILO policy guidelines for the reason that they are outdated and awkward in light of the recent global and structural changes in labor market, it has taken some bold steps such as the recognition and legalization of teachers' trade unions.

Turing to environmental standards, Korea is actively participating in international efforts to preserve the global environment through its accession to a variety of international environmental agreements and is taking a leadership role in solving regional environmental problems by strengthening environmental cooperation with neighboring countries. To enhance global cooperation, Korea took part in major international agreements, such as the UN Framework Convention on Climate Change in 1993, and is supposed to fulfill general obligations stipulated by the Convention as a non-Annex 1 country, including publishing national reports. Korea's first national report was submitted in March 1998. While most advanced countries' economic growth rates and CO_2 emissions growth rates have stabilized at 2～3%, Korea had recorded a high CO_2 emission growth rate of 8～9% prior to the currency crisis of 1998. Given its present economic and social situation, the government faces a real challenge in fulfilling the its obligations for reducing greenhouse gas emissions.

Finally, in regard to combating corruption and bribery, Korean government signed the OECD Convention for Combating Bribery of Foreign Public Officials, which has made the bribing of foreign public officials to win or retain business a criminal act and has entered into force in early 1999. Also the government has already amended its law to accommodate the obligations laid down by the Convention. Korean government has also taken a very active stance toward the OECD Guidelines for Multinational Enterprises, which has long been reviewed to reflect the rapidly evolving global environment, and finalized at the OECD Ministerial Council meeting at the end of June.

Recapitulation

Korea has undertaken a wide range of reforms keyed to adapting its economy and society to the new wave of globalization and bringing its institutions and policy-making practices closer to global norms and standards. The progress has not been uniform, however, across three categories listed earlier.

First, in regards to greater market openness, the old political dynamics proved diehard. While the need to further open Korean market was recognized broadly, the economic and financial difficulties entailed by crisis made it harder for the government to allow foreign competitive pressures to exert full effects. Whether Korean market has really turned into a fully open one would be put to real test soon. One remarkable exception has been the massive liberalization of foreign exchange and investment regime. Of course, it was a sine qua non for a country in urgent need to replenish almost depleted foreign exchange reserve as quickly as possible. But it represents a significant departure from its past policy practices that have always given preference for foreign borrowing over foreign direct investment (Johnson, 1985).

By contrast, the government's efforts to transplant best financial and corporate governance structure and practices met with little opposition despite the fact that some plausible claims could be made for reasons of cultural differences. On the contrary, national consensus was quickly formed from the beginning of economic crisis that the overdue maintenance of outdated financial system and corporate governance structure was to blame. And this consensus provided a strong and continuing support for reform, and with the result that the strength of opposition to this category of global standards appears to diminish quickly over time.

Finally, on the fronts of upgrading and converging environmental and labor standards toward global ones has been somewhat postponed in view of economic crisis and the consequent greater financial burden on business sector in general. So this constitutes another area that awaits reappraisal as the economy picks up. But what we need to focus on is the tendency of the government to take discretionary policy steps to alleviate the adjustment problem, to which we turn below.

It is hard to collect reliable evidence how outside world evaluates Korea's reform efforts thus far as briefed above.[4] One available source may be the IMD's World Competitiveness Report released in April this year. According to the report, Korea has risen quite significantly in the overall ranking of national competitiveness. It marks 28th among 47 major countries. It represents a remarkable advancement and recovery from 35th in 1998 and 38th in 1999. It seems as if the contention that Korean economy has overcome the crisis is borne out.

But when we take a closer look, its appraisal is mixed. First of all, Korea's market openness received a chilly score. In the area of internationalization, Korea ranks 30th, which represents a considerable improvement in light of its rank of 45th in 1997, though. Conspicuously, on trade protectionism front, Korea indeed fared really poor, ranking shamefully at 45th. Incidentally, Korean people's strong xenophobia and closed cultural tradition are particularly noted as the worst among the same group of countries. Turning to the financial system, Korea ranks 34th, although it recorded a notable advancement in view of the fact that it ranked 45th in 1998. The protection of shareholders rights ranks next to the bottom (45th), and transparency in the operation of financial system also ranks similarly(45th). On scores of price control, environmental laws and regulations, and consumer protection, Korea again ranks at the bottom of the list(47th). Korea failed to rid itself of bad reputation for corruption, too. According to Transparency International's 1998 Corruption Perceptions Index, Korea ranked at 42nd alongside Zimbabwe out of 85 countries surveyed (with a CPI score of 4.2 out of 10(very clean)).

POTENTIAL NATIONAL INTEREST CONFLICTS IN THE GLOBALIZATION PROCESS: SCOPE AND NATURE

How to manage the forces that the acceleration of globalization has unleashed? What would be in the national interest? Admittedly it is a daunting task to define the national interest in the era of globalization. It inevitably involves considerations of, and cannot but reflect in one way or another, the nation's predominant ideologies, tradition and culture embedded in the government-society relationship, policy

4) The calculation methods and the meaning of rankings included in the following sources, (which relied heavily on surveys with small samples) are admittedly very controvertible. But it is hard to find any other quantitative or comparative data.

practices, and domestic institutions. Furthermore, its definition may have to vary across issue areas and over time. Nonetheless, recognizing the fact that globalization, like all other changes in the international economic and political structure, provides opportunities for and constraints on national action, it can be thought of as the 'national interest' if a country can choose the policy alternative with the highest reward(or lowest punishment).[5]

Today, a populist hostility has begun to emerge particularly in the Western world towards the underlying policy consensus about the desirability(or inevitability) of closer international economic integration. It emerges in response to particular issues(like NAFTA, or WTO Conference in Seattle), but it reflects a deep-seated dissatisfaction. A cultural reaction against the social and environmental consequences of increasingly intense international competition is heavily involved. This indicates that there is a certain need to improve or reshape the global rules and policies to make them better support our globalizing economies, for developing countries, in particular.[6][7] But I find little ground to suspect that the twin goals of securing the national interest and of bringing their policies and institutions closer to global norms and standards are in severe conflict with each other.

Let me first consider the issue of national interest in the context of liberalizing trade and investment regimes. With so much of our economies dependent on one another, no country any longer has an interest in closing off markets or weakening its ties with the rest of the world and being left behind. And certainly no country—developed or developing—can be bold or folly enough to build significant walls against investment, technology, and information flows from outside.

It is true that as internationalization affects the opportunities and constraints facing social and economic actors, and therefore their policy preferences, and as it has profound effects on domestic politics, the preexisting domestic institutions may allow actors to resist the pressures generated by internationalization. This can be possible by facilitating the organization of groups opposed to change or allowing privileged access to policy-making, while denying political representation to groups benefiting from the changes advanced by internationalization. Existing institutions may make new policies literally unthinkable or block any changes from occurring(pp. 20～21).

The country's factor endowments (Heckscher-Ohlin model) or the specificity of the particular industry's human and physical capital and its position in the world trade and payments (Ricardo-Viner model) would predict the likely pressure for or against liberalization. Other

5) David Lake defines the 'national trade interest' deductively like this in an effort to use it to explain policy(Lake, 1988, p. 60).

6) Examples may include an overly protective intellectual property rights system, environmental and labor-related standards and demands to link them to trade, and the insistence on and the abuse of reciprocity and fairness claims, as reflected in the U.S. aggressive unilateralism.

7) It is also noteworthy that Rodrik(1999), for example, advocates a cautious approach for developing countries. He said "Successful economies have combined a certain degree of openness with policies that are conducive to investment, macroeconomic stability, and prudent management of capital inflows. Policymakers have to understand that integration into the world economy is unlikely to bring long-term growth on its own. They have to complement openness with other policies, including an explicit and coherent domestic investment strategy. Developing nations have to engage the world economy on their own terms, not on terms set by global markets or multilateral institutions. They should take a strategic and differentiated approach to openness."(p. 19).

factors influencing actors' preferences for openness can also be identified. For example, scale economy and total factor productivity and learning by doing stand out. Firms and industries already involved in global economic activities-trade, lending, investment, licensing-may have substantial cost advantage due to their past actions(knowledge-information about market conditions-and networks of suppliers and consumers, and a variety of other complex and firm-specific factors), and this will amplify their preference for further economic openness. By contrast, the substantial adjustments needed to enter into international economic activities may increase opposition to openness(Frieden and Rogowski, 39~40).

If domestic institutions block relative price signals from the international economy from entering the domestic one, actors' interests would be made obscure and in turn it may freeze coalitions and policies into place, since the costs of changing these coalitions and policies would be very high. When this happens, the influence of the world economy would be negated or modified. Those people who would gain from change may not interpret the price signals correctly or may be uncertain about the extent of their prospective gains, while entrenched groups may become more intent on defending their interests. This situation will only work to the detriment of national interest, since it is obvious that market will punish such countries that adopt price-distorting policies.

Moreover, as incentives change in this fashion through internationalization, we expect to observe changes in economic policies and in political institutions(Milner and Keohane, p. 4), since these preexisting institutions and coalitions seem unable indefinitely to resist change in the face of major and continuing changes in relative prices. At some threshold, pressure for change-filtered through domestic interests-becomes sufficiently great to force substantial changes in the institutions themselves. Once policies shift to permit price signals to affect the domestic economy, institutions may have to be altered as well. Internationalization combined with balance of payments crises often leads to institutional changes that increase the costs of policy reversal, particularly by delegating authority over those policies to agencies, typically central banks that are likely to pursue them in the future. Of course, there is substantial variation by country, both in degree of adaptation and success in maintaining basic structures of power while changing economic policy. Nevertheless, the current vogue in favor of neo-liberal economic policies—the combination of financial anti-inflation measures, trade and capital market liberalization as well as the reduction of government intervention domestically—is cited as evidence of the policy convergence in this manner(Milner and Keohane, p. 20).[8)]

8) On the thesis of convergence, of course, there exist two contrasting views. One major camp contends that "[t]he economic and political effects of internalization are neither simple nor uniform. Although internationalization may exert some broadly similar effects across countries, its differential effects are likely to dominate, [depending upon different bases of comparative advantage or factor endowments, and the like, and the resultant differential formation of political coalitions]"(Milner and Keohane, p. 15; Boyer, 1996, pp. 29~30). The other camp, championed by Francis Fukuyama(1999: 16~17), argues that "in economic, political, and social spheres, the distinctive institutions and practices fostered by Asia's cultural systems will converge over time with the patterns seen in the West. That is, economic life will be more open and subject to market forces; governance will be increasingly democratic; and social structure(and as well as social problems) will come to resemble that of postindustrial Western societies. Far from reinforcing Asian exceptionalism, the current economic crisis will accelerate homogenizing trends in all

This kind of balance is, however, harder to strike when we move from trade and investment issues to differences in national regulations which embody different cultural and social systems or different ethics. One major consequence of the globalization of business—through foreign direct investment, corporate alliances or subcontracting arrangements—is a growing awareness of the differences in business cultures. Some of these reflect different corporate governance structures, but others reflect a wide variety of social conventions. Hence so-called 'systems friction' is bound to arise.

Consider many of the conflicts and disputes between the United States and Japan in the 1980s and 90s, as was championed by the 1989 Structural Impediments Initiative. It is generally believed that they did not stem from Japanese government intervention in the form of border controls, but from the nature of Japanese business-say, the concentrated ownership of the *keiretsu*, and the web of cross-ownership and informal ties which seem to outsiders to represent collusion and systematic barriers to entry(Cable, 1996, pp. 236~238). A comparable set of problems exists in relation to the Korean *chaebols*, which represent highly concentrated ownership and have close relations with government.

These kinds of frictions will have to be accommodated within mutually acceptable rules of global competition. The existence of different enterprise types or concepts of corporate governance need not in itself be a barrier to deeper integration, as is currently demonstrated by the EU. Some of these differences are being eroded in any event by global competition; the acceptance by Daimler-Benz of US accounting principles in order to gain a listing in New York is a measure of market pressures for convergence between different systems of governance(Cable, p. 237).

Moreover, any sense of 'unfairness' arising from different business practices is currently swamped by concern over governmental distortions and protection in the form of state aid-to steel companies, banks and airlines, among others-and public procurement preferences. Without a common understanding on how to reconcile global competition with distinctive business cultures, friction will continue to be generated. For the foreseeable future, however, the central problem for trade policy(and market access more broadly) will be how to discipline and reduce these state interventions. Here we come back to the same point again that to prevent protectionist responses in disguise of noble aims of preserving national identity and cultural diversity from occurring and overcoming such tendencies would better serve the national interest.

The issue of national interest takes another turn when it comes to a clash of values or ethics. Two potentially very divisive and important issues on the new trade agenda—trade and labor, and trade and environment—are good cases in point. The concern here is to uphold universal standards of behavior by prohibiting, for example, exports from China produced in prison camps; animals transported in cruel conditions(veal calves; tropical birds), or killed inhumanely(in traps, for their fur) and thereby bringing pressure to bear on governments which cause offence by neglecting human(or animal) rights(Cable, pp. 240~243). In such cases, the problem is that ethical values and trade measures mix badly, since there are often hidden motives involved. It is often extremely difficult to unravel the disinterested, humanitarian, demand for trade measures from the self-interested protectionist motives. A few

three areas."

cases—say, child labor and Indian carpets—may be exclusively humanitarian in motivation. But much of the pressure coming from the EU and the United States for a 'social clause' in the WTO(and existing provisions in NAFTA) is based on a belief that low labor standards overseas undermine the position of labor in importing countries. The trade-environment linkage is also a mixture of the value-driven (particularly in relation to animals), namely, a self-interested but valid concern with cross-border environmental externalities(like trade in substances contributing to the depletion of the ozone layer) and self-interested concerns about eco-dumping. The tuna/dolphin dispute represents another mixture of value-driven environmentalism and self-interested US fishing interests. In such circumstances, the latter tends inevitably to weaken the moral imperative of the former.

Ironically, the use of trade measures may also be a highly inefficient, or even counter-productive, instrument for upholding ethical principles(Bhagwati, 1995). Trade policy measures against prison-produced goods from China may not be very helpful to China's prison population, which will be redirected to idleness or to more arduous labor in non-tradable sector. The same logic can be applied to international measures—supported by NGOs—against products which use child (or under-age) labor. In the absence of free education, teenage females in particular are likely to find themselves otherwise engaged in less remunerative domestic service, more arduous farm work, prostitution or child marriage.

In addition, better alternatives, market-based, thus economically less distorting and without leading to interstate trade and political disputes, can be devised for the expression of ethical preferences. Voluntary consumer choice is a typical example. Quality trademarks or voluntary information disclosure—that children are not used in production; that tuna have been caught in nets that do not catch dolphins; that animal products do not involve animal cruelty—are such mechanisms. By these, producers can set standards against which they wish to be judged and consumers can express their ethical preferences. Mutual recognition that is applied increasingly to areas such as technical standards that are imposed by national governments to protect consumer health and safety is another approach. It is softer and less intrusive in the sense that it tolerates a diversity of standards and regulations while requiring that these are not used to discriminate against foreign providers. Moreover, under this system, consumers are allowed to make free choice among different regulations, producers are encouraged to compete to provide the most attractive package including information, after-sales service and quality.

While there has been deep concern and worry that globalization may lead to a 'race to the bottom,' empirical evidence supporting this contention seems scant. By this they mean that governments, especially in developing countries, compete for foreign investment by lowering labor and environmental standards so that multinational corporations will be attracted to the country with the least onerous regulatory system. The competition, in this view, puts downward pressure on global standards. On the contrary, competition to attract investment may actually be putting upward pressure on labor and environmental standards. Competition for investment will not necessarily lead to the widespread creation of 'pollution havens' and 'social dumping.' Companies engaged in modern manufacturing and services rarely move to take advantage of lower environmental standards, and countries that try to compete for investment with lax environmental rules are unlikely to be successful.

Their efforts may even be counter-productive (Oman, 2000). The cost of complying with anti-pollution laws has generally turned out to be too modest to influence decisions on investment locations. Anyway, the vast bulk of foreign investment in supposedly 'dirty' industries such as oil, gas, chemicals and metals is made in developed countries that already have high environmental standards. Some companies involved in resource extraction, such as mining, fishing and forestry, may have taken advantage of lax environmental regulations in the past. But even in those industries the trend is toward higher standards, partly as a result of pressure in the companies' home countries, partly because large companies increasingly apply a single world standard. These higher international standards tend to spread to local companies in developing countries. A study of Latin America in the 1970s and 1980s found that the more open national economies ended up with cleaner production than the more protectionist countries.

A similar story can be told for labor standards. Dale(2000) reported that the rights of freedom of association in 75 countries showed no deterioration as competition for investment intensified but found significant improvements in 17 of the countries as they moved toward democracy. In special export-processing zones, such as the Mexican *maquiladores*, frequently criticized for labor-rights violations, the trend in labor standards seems to be upward. Another OECD study found that investors preferred a stable social climate and that low labor standards were more of a deterrent than an attraction. There is no empirical evidence that low labor-standard countries are better at exporting than those with higher standards.

MEETING THE REAL CHALLENGE : REFORMING POLICYMAKING PROCESS, PRACTICES, AND INSTITUTIONS

As seen in the preceding section, the economic and structural reform of the Korean government over the past two years has been broadly in line with the so-called "Washington consensus,"[9] and it can be said that Korean government has, in large measure, followed its prescriptions quite faithfully. On the other hand, it is said that the fundamental weaknesses and vulnerabilities of the Korean economy that brought about the crisis in the first place remain largely uncured. As is well indicated in its poor rankings, Korea is still lagging far behind in fully accepting and converging toward global norms and standards. The key question here should be why the structural reform so far has fallen short of our expectations and why global standards that has played a guiding role in the reform process failed to be firmly set in place. In what follows, I will delve into some more fundamental factors that tended to inhibit these global standards from being embedded in the policy-making process and institutions.

Institutional Reform and Credible Commitment

From the perspective of national govern-

9) Washington consensus represents the following ten policy reform guidelines(Williamson, 1994: 26~28): fiscal discipline, redirecting public expenditure priorities (from politically sensitive areas toward neglected fields with high economic returns and the potential to improve income distribution), tax reform, financial liberalization, adoption of a unified exchange rate(set at a level sufficiently competitive), trade liberalization, abolition of foreign direct investment, privatization, deregulation, and legal reform to secure property rights.

ments, the whole purpose of adapting to global standards is to change national policies and institutions in order for the latter to converge around the former and thereby help generate the more beneficial effects for the well-beings of the nation. To make this reform process work well, it is foremost important and necessary for the national governments to be able to make credible commitments to them (Shepsle, 1991). One obvious advantage of adopting and making credible commitments to global standards consists in the fact that their relative merits are proven through competition among them in their contest for superiority over time and in a rapidly changing global environment. But what is troublesome about this notion is that what better performance means is not evidently clear. Better performance for what? And in whose eyes?

For example, institutional change requires quite a long period of time to be firmly set in place, replacing the former institutions and performing expected functions smoothly and nicely. As a result, national governments may be caught in a dilemma when many unanticipated or unintended transitional problems arise. In these circumstances it may be only natural that national governments find themselves in a position in which it is inevitable to make recourse to old institutions and policy habits. For it is always more profitable for politicians to put short-term political gains before long-term beneficial societal consequences. Moreover, ironically enough, the more responsive national governments are, the more likely is that they find it difficult to abstain themselves from making discretionary interventions into the working of market forces, with the result that the very impetus of institutional and policy changes is weakened.

The same logic applies when national governments are forced to allow consideration for fairness in the midst of institutional and policy changes. As long as, in every institutional and policy changes, some groups of people stand to benefit from them, while others lose, it is hard for national governments to ignore or neglect these distributional consequences of change. As the losers tend to be those who have benefited under the previous institutional arrangements and policies, however, the government's reliance on temporary and discretionary policy measures inevitably distorts the very incentive structures that it wants to put in place. And the consequence would be the perverse effect on the people's attitude toward institutional learning. They are led to feel that they do not have to put efforts in acquiring new knowledge and skills in order to make themselves more efficient players in the new institutional set-up(North, 1998, p. 16; 1990, pp. 73 ~ 82).

Worse, the problem of moral hazards comes into play. It goes without saying that it is harder to cure such problem when credible commitment on the part of the government is lacking or deficient. For these reasons, the most formidable enemy of any market-oriented institutional change is the tendency and temptation of the governments to make discretionary intervention out of impatience to wait until the market-oriented reform process unfolds and bear its fruits.

Given the fact that institutional change should ultimately be embodied in the leanings and predilections of government organizations, it is important whether or not they are willing to abdicate their interventionist habits and replace them with an arm's length relationship with the market and the private sector. If this is not the case, any commitment to a market-oriented structural reform can hardly be credible.[10]

10) Incidentally it is interesting to note that Shepsle

Moreover, if the policy-making authority is highly centralized and such government organizations monopolize the policy domains of institutional and policy reform, the problem exacerbates. It is simply because there is no entity that can put effective opposition to and keep in check their tendency and irresistible temptations of taking discretionary policy measures for political expediency.

Market-Oriented Reform and the Irony of State Strength

Ironically, the tendency to intervene discretionally is stronger for the 'strong states.' On one hand, these are the states for which the general public's expectations for and the pressures on the governments to play effective roles in cushioning the side effects entailed in the process of institutional and policy changes are great. On the other, these governments have a wide array of effective policy instruments at their disposal. The people tend to rely upon the government in an effort to ease the burden of adjustment to new institutions and policy changes, and in turn, the government finds itself hard pressed to take some sort of alleviating policy actions. In these circumstances, the government may end up with confirming the public's beliefs and expectations in a fashion to allow them to continue to rely upon and put pressure on the government to take such actions. So does the vicious circle run indefinitely.

In this connection, what John Ikenberry(1986) called the 'irony of state strength' in its pursuit of reform is particularly relevant. First, we usually tend to think if a state can be called a 'strong state,' it should be able to impose its will on the society very forcibly and effectively. But it is important to recognize that strong states are tied to past policy commitments just as weak states are. In fact, a roughly inverse relationship exists between the degree of intervention in the economy and society and the degree of flexibility for the state. Namely the deeper and wider the state intervention in the economy and society is, the more inflexible the state tends to be and, as a result, the more limited the scope of action that the state can take at the later stage.

It is also ironical that a 'strong state,' with many opportunities for intervention and tools to do so, tends to be entrapped or dominated by private interests, especially over time. Government intervention, although initially undertaken for national purposes, may provide a mechanism for private claims on state resources and thwart the government's original purposes. It is exactly in this vein, for example, that the public enterprises tend to use the state, not the other way around. At the beginning, state directs and controls public enterprises quite effectively, but this state control later weakens so that the relationship reverses itself. In this very sense, it is wrong to imagine that the stronger the state, it can better maintain control over political outcomes, and better manage the economy and society all the time. In short, the very act of intervention may prepare the ground for the subversion of state control.

If the Korean government has exhibited so

(1991) offers two effective ways to make credible commitment: (1) division of labor(decentralization); (2) procedural delay. By contrast, in the context of making international commitment credible, Cowhey(1993) suggests ways to (1) create specialized incentives to match public and self-interests(e.g., appoint an American as head of NATO to make the U.S. military value NATO); (2) alter the divisions of power in an organization (e.g., institute a new check on the leader, like Parliament's budgetary powers); and/or (3) permit others to monitor the behavior of leaders(e.g., 'sunshine laws' for administrative proceedings in democracies).

much of inconsistency and incoherence, in pursuing reform policies, it is because, I think, in most of the economic problems the government itself is one of the parties to be held responsible. As far as the state cannot stand aloof in seeking solution, a big moral hazard problem creeps in on the part of the other players, which in turn making it inevitable for the government to intervene again. In this fashion, this irony of state strength goes a long way toward explaining how and why Korea's reform has been caught in a vicious circle of intervention.

The second element of the irony of state strength is that we tend to think to leave something to the market, or to let the market decide the outcome, is a sure sign of weak government. It is not true, however. The state's withdrawal from regulatory involvement in the economy and the re-imposition of the market may be as powerful an expression of state capacity as intervention was in the first place. The use of the market as an instrument for state control over political outcomes is the less obvious but equally important counterpoint to direct intervention. To resist the political demands that tend to go against what market usually dictates is something that requires a greater degree of political courage, determination, and commitment on the part of state elites.

Suppose a government faces a choice either to decide to protect a declining industry or to resist the political demand to do so and let the industry die out. Which option do you think more difficult for the government to take? This clearly indicates that the meaning of state capacity does not lie in the simple degree of state intervention in the economy and society. The capacity of government to extricate itself or to resist intervention in the first place is a crucial aspect of state capacity. And this capacity eventually can become the central vehicle of government's strategy to bring into play the most powerful program of structural adjustment.

Viewed from this perspective, Korean government's approach to reform seems to have been unduly burdened by double misunderstandings of this paradox. First of all, the government and the President himself has been under self-imposed pressure to act strongly. Secondly, they tend to regard the direct government involvement in the economic affairs, instead of the greater reliance on the market, as the indication of 'state strength.' As a result, they failed in harnessing the market and thereby imposing the market discipline on thus-far irresponsible private sector business as the central vehicle of structural adjustment, which ought to be the core of any serious reform proposal.

Here we can say that strategic abstention is, just as much as strategic intervention, the stuff of state capacity. In other words, while intervention may compromise autonomy, disengagement may enhance autonomy of the state. Moreover, what appears to be a minimalist state strategy that involves enforcing market processes may be as efficacious as the juggernaut of extensive and systematic direct intervention. In this sense, it can be said that we are experiencing the irony of state strength in action most vividly.[11]

It is also noteworthy here that the current government's(actually President Kim Dae-jung's) reform slogan of 'democracy and market economy' contains elements of contradiction hard to reconcile.[12] Democracy is a very

11) This paradoxical situation occurred in fairly similar fashion in the previous Kim Young Sam's government(Choi, 1997).

12) 'Parallel development of democracy and market economy' is President Kim's vision for Korea and the world. He seems to have come up with this

difficult term to define here. In any case, when the two is to be combined, it is almost always the market economy that has to be sacrificed. The reason that the market tends to be pitted against democracy when the two are in conflict is simple. Political logic tends to prevail over economic logic, and whenever the government has power to deliver political demands, it should be hard to resist to using that power.

Paradox of Reform in New Democracies

It is interesting to note that at the criticism about President Kim's style, the ruling elites and the government vacillated between a more authoritarian and technocratic style and the participatory style required to maintain consensus, as frequently found in other new democracies(Przeworski, 1991, p. 183). But even when they tried to change their style, it was understood only to orchestrate support for policies already chosen, breeding distrust and bitterness. As a result, a vicious circle set in and the 'paradox of democratic reform' appeared: The turn to a greater reliance on democratic procedures tended to produce delay and compromise the rationality of reform proposals, causing impatience and intolerance among the proponents of reforms(ibid., pp. 186~187). This led to authoritarian temptations on the part of reformers to strengthen its grip on the process further. This, in turn, magnified the ineffectiveness of the representative institutions, generating public distrust of their political motive and reducing popular support for reform being undertaken in a highly authoritarian manner further. Unfortunately, the current government, as its predecessor, has been treading exactly the same road(Choi, 1997).

In particular, in the area of economic structural reforms, the public's misunderstanding of and antagonistic attitude toward market-oriented reform has been prominent and proved to be the fundamental stumbling block. Being so much accustomed to living in a society, in which government intervention and regulation has been widespread and the anti-business sentiments are dominant, they are not ready to admit that markets are better mechanism for allocating resources. Given this limitation, the assumption that if individuals internalize the costs and benefits of their decision, everyone will respond to price stimuli, also proved nothing but an article of faith. Unless powerful cultural barriers are removed and well entrenched habits is eroded, it appears hard to expect that people behave like market actors (ibid., p. 158). Here we see the irony of state strength being replayed.

notion earlier on. This notion in outlined in his 1994 article in Foreign Affairs titled "Is Culture Destiny?: The Myth of Asia's Anti-Democratic Values." This article was a critical response to proponents of so-called 'Asian values,' notably Lee Kwan Yew of Singapore. The Core of his notion is that 1) Dictatorship fosters collusion between the government officials and business interests, aggravating the problem of inequality and making countries vulnerable to the threat of socialist revolution; 2) If there had been genuine democracy, there could not have been collusion between politicians and businessmen based on the system of government-controlled financial resource allocation, and hence no such crisis; and 3) Korea's task now is to implement a system of checks and balances in the political and economic spheres and to eliminate, through market liberalization and competition, the rent hitherto enjoyed by vested interests(Ministry of Finance and Economy, 1998: 7~8).

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