

Varieties of East Asian Developmentalist Trade Policy: The Trade Liberalization-Industrial Policy Nexus in Thailand and South Korea*

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This study explores the varieties of East Asian developmentalist trade policy by analyzing Thailand's and South Korea's pursuit of free trade agreements (FTAs). Thailand and South Korea offer a nice laboratory to test a 'neoliberal vs. developmental' perspective. After Prime Minister Thaksin took office in 2001, Thailand became a pacesetter in East Asia's pursuit of FTAs with its policy nexus of developmentalism and liberalism. However, the lack of institutionalization of trade policy-making process soon led Thaksin's CEO-style leadership and pro-business policy bias to cronyism and corruption. In contrast to Thailand's abrupt move from developmental liberalism to sectoral cronyism, South Korea has successfully institutionalized its transition from developmental mercantilism to developmental liberalism by strengthening the key trade agency—i.e., the Office of the Minister for Trade, which successfully embedded its industrial policy goals in liberal trade initiatives.

Keywords: *East Asian developmental state, free trade agreement (FTA), South Korea, Thailand, industrial policy*

1. INTRODUCTION

In East Asia, the post-1997-98 Asian financial crisis (AFC) consensus was that the result of globalization is a growing convergence of national economic policies toward neoliberalism. The traditional functions provided by nation-states have either shifted to the other non-state actors or disappeared (completely) under the pressure of globalization. The developmental state model became the main target of blame for the birth of crony capitalism and the forced divorce of the state and market (Chang, 2007; Dittmer, 2007; Ha and Lee, 2007; Krugman, 1994; Lee and Han, 2007).

Yet, the global financial crisis (GFC) of 2008 and the subsequent European sovereign debt crisis of 2010 have induced serious skepticism of neoliberal policy prescriptions. In response, government interventionism, either in the form of quantitative easing or industrial policy to rescue troubled businesses, has expanded across the world. The GFC indeed opened the renewed debate about the role of state in development and trade. Industrial policy is now back in fashion in major economies such as the U.S., the U.K., France, Germany, Japan, China, and South Korea (The Economist August 7th, 2010). There is a growing lacuna in the literature on post-crisis capitalism in East Asia. An emerging consensus is that globalization has not undermined the legitimacy of developmentalist trade policy (Dittmer, 2007; Joshi, 2012; Lim, 2010; Stubbs, 2009).

East Asian countries' pursuit of free trade agreements (FTAs) is set against this

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‘neoliberal vs. developmental’ pendulum. Among export-dependent East Asian countries, the need grew rapidly to pursue greater institutionalization of trade ties beyond the linkages traditionally provided by the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), on the one hand, and ethnic Chinese, Japanese, and U.S. corporate networks, on the other (Aggarwal and Koo, 2005, 2008).¹

Do East Asian countries remain autonomous and central in setting industrial and trade policy goals in the post-AFC and post-GFC period? Thailand and South Korea offer a nice laboratory to examine the rise and fall of developmentalist trade policy in East Asia. The tale of Thailand and South Korea is particularly intriguing as they share similarities and differences in their pursuit of FTAs, thus helping understand better the varieties of developmentalist trade policy in the region.

Throughout the 1980s and the 1990s, Thailand was a highly open, globally-integrated economy thanks to significant unilateral liberalization. In the aftermath of the AFC, Thailand maintained its liberal approach toward trade. As the Thaksin administration took office in 2001, FTAs became a serious policy bias as developmentalist goals were combined with liberal trade policy orientation (Nagai, 2002; Sally, 2007). In many respects, Thailand was thought to be the pacesetter in the proliferation of FTAs in East Asia. Despite its earlier enthusiasm and success, however, Thailand’s FTA initiative along with its developmentalist goals is now in stalemate.

In contrast, South Korea, which used to be criticized for its allegedly protectionist policies, remains a steady player in the FTA game and has successfully embedded its industrial policy goals in its liberal trade initiatives. South Korea has led the race toward bilateral FTAs since its first cross-Pacific free trade deal with Chile in 2003. The GFC has not reduced the speed and scope of South Korea’s FTA initiative. It is the only country that has concluded bilateral FTAs with four major economies among its top five trading partners: the U.S., the EU, ASEAN, and China (Koo, 2009, 2010, 2013). If fully implemented, over 67 percent of South Korea’s total trade would be covered by the fourteen bilateral FTAs that have been concluded so far.

The evolution of FTA strategies in both countries needs to be understood in light of the way in which domestic structures have underpinned such a dramatic shift under the rubric of free trade. The developmental state debate provides a natural starting point for a comparative analysis of the rise and fall of government-led FTA strategies (Johnson, 1982; Woo-Cumings, 1999). From an analytical point of view, the significance of this comparative analysis is three-fold. First, the two countries represent a notable policy departure from the exclusive focus on the postwar multilateral trading regime and shift toward ‘government-led’ trade liberalization through FTAs. Second, their FTA strategies have been shaped by a top-down political initiative rather than a bottom-up demand from business groups and the general public. And third, however, Thailand’s trade policy has devolved into sectoral cronyism, whereas South Korea maintains a sustainable mix of developmentalism and liberalism.

The remainder of this study unfolds as follows. Building upon the developmental state approach, Section II develops a conceptual framework to examine how a particular set of arrangements between government’s industrial policy and the scope of trade liberalization

¹ As the trend-setting East Asian only Japan-Singapore Agreement for New Age Economic Partnership was agreed to in October 2001, others soon followed, with accords including South Korea and Chile (2003), Japan and Mexico (2004), and the like. By 2014 the number of FTAs concluded by East Asian countries is over 100. See ADB database at <http://www.aric.adb.org/>.

has affected each country's trade policy equilibrium. Sections III and IV analyze how and to what extent Thailand and South Korea have embedded sectoral cronyism and developmental liberalism, respectively, in their FTA initiatives, departing from their earlier focus on market-based liberalism (Thailand) and developmental mercantilism (South Korea). Section V summarizes the main argument and findings and draws broad regional implications.

2. CONCEPTUAL FRAMEWORK OF THE VARIETIES OF DEVELOPMENTALIST TRADE POLICY

2.1 Developmental States vs. Neoliberal Convergence²

As one of the most compelling explanations for East Asia's economic catch-up, the developmental state model challenged a variety of widely accepted models of economic development, from the plan-irrational socialist model to liberal modernization. The adherents of the 'plan-rational' developmental state model argue that a certain type of interventionist government is capable of transforming a poor, underdeveloped country into a prosperous one. It is widely held that East Asian countries have been generally more successful than their counterparts in Africa, South Asia, and Latin America, because the formers have acquired control over a variety of factors critical to economic growth such as capital, national economic planning, scarce resources, industrial policies, and political insulation (Amsden, 1989; Johnson, 1982; Pempel, 1999; Wade, 1990; Woo-Cumings, 1999).

However, the so-called convergence thesis poses a direct challenge to the East Asian developmental state model, in which state autonomy is particularly crucial. The convergence thesis claims that the authority of the governments of all states, large and small, strong and weak, has been eroding rapidly as a result of globalization: The more a national economy is integrated into global markets, the higher the costs of a national policy that is not compatible with global market demands such as deregulation and market liberalization. In a world of highly integrated economies, owners of capital, highly skilled workers, and many professionals are highly mobile and can take their resources where they are most in demand. Anticipating this flight of capital and skills, governments have to cut taxes and dismantle the welfare state before the migration gets under way. The result is a growing convergence of national economic policies toward neoclassical liberalism and trade liberalization (Hall and Soskice, 2001; Strange, 1996).

Following the unprecedented economic success of the previous decades, the late 1990s provided a painful litmus test for the validity and utility of East Asia's developmental state model. In the wake of the AFC, the illusion of the East Asian economic miracle was shattered. The developmental state model was now called corrupt crony capitalism, vulnerable to moral hazards. The imposed solution, in the so-called Washington Consensus, was transparency in corporate governance and retreat of the state (Sohn, 2013). Many predicted that a convergence toward the Anglo-American liberal market economies would be inevitable when it came to corporate governance, at the center of which was the fad for marketization and financialization (Dore, 2000). More importantly, many Western countries, particularly the U.S., became less tolerant of East Asian countries' mercantilist policy. Under

² This section builds upon and extends the first author's earlier work on this subject as noted in the bibliography.

the rubric of fair trade or the level playing field, the U.S. aggressively demanded an ‘asymmetrically reciprocal’ opening of East Asian markets (Koo, 2010; Sohn and Koo, 2011).³

Despite their respective explanatory strengths, neither the traditional developmental state model nor the neoliberal convergence theory can fully capture the post-crisis East Asian developmental states that have varied both spatially and temporally. The developmental state approach can explain why relatively autonomous interventionist governments persist in some parts of the region. However, this approach falls short of accounting for why some countries liberalize trade more comprehensively than others who tend to stick to mercantilist policies. In contrast, the neoliberal approach can explain the trade liberalization in some countries, but remains silent about why government elites still retain relative autonomy in other countries. In what follows, this study develops a synthetic framework that can consider the different types of combinations between developmentalism and liberalism.

2.2 Developmentalism-liberalism Nexus

When negotiating trade agreements, individual countries choose the characteristics of agreements and have differing preferences in two dimensions: (1) the range of issues that agreements deals with, running from narrow to broad; and (2) the intention of the participating governments, ranging from interventionist or *laissez-faire*.⁴

First, in terms of the range of issues, many countries have pursued sectoral, narrow-based negotiations to open markets. Such negotiations were especially preferred by the U.S. in the mid- and late 1990s. The U.S. government negotiated sectoral agreements in telecommunications, information technology, and financial services. Most of America’s East Asian trading partners were also drawn into this direction. In contrast to comprehensive liberalization, sectoral agreements may raise trade barriers, as in the case of the Multi-fiber Arrangement (MFA), which had taken the world down the elaborate protectionist path in textiles until it phased out in 2005. In the meantime, moderate, sectoral protection is sometimes considered as the price that has to be paid for the greater good of comprehensive liberalization, because it helps pacify powerful anti-free trade coalitions (Aggarwal and Ravenhill, 2001).

The issue scope of trade liberalization—whether narrow/sectoral or broad/comprehensive—can be brokered by the degree of interventionist goals promoted by an autonomous government. In contrast to the neoliberal emphasis on benefiting corporate businesses by minimizing the role of the state, the developmental state literature emphasizes the

³ ‘Asymmetric reciprocity’ advantageously opens markets for U.S. traders and investors, while rewarding and supporting domestic market-oriented reformers and advancing democratic institutions, an agenda that the Bush administration began to pursue at the turn of the new millennium (Feinberg, 2003). For the interplay of free trade and fair trade ideas in American trade policy decision-making, see Goldstein 1988.

⁴ Of course, there are other characteristics that individual countries will have to choose when negotiating trade agreements: (1) actor scope, which refers to whether the agreement is bilateral or multilateral; (2) geography, which refers to whether the agreements are focused within or outside the region; (3) the size of partners, large or small; and (4) the institutional strength of the arrangement being negotiated (Aggarwal, 1998). However, the two dimensions—issue scope and industrial policy goal orientation—illustrate the most notably variations among East Asian countries.

government's 'embedded autonomy' (Evans, 1995)⁵ and the importance of strategic and 'selective state intervention' (Grabowski, 1994: 413). The government's ability to "discipline firms which break the rules, and also prevent people with money from hijacking the political process" (Gainsborough, 2009: 1319) has been thought to be a key to success. This requires strong state capacity to penetrate and transform society by overcoming narrow interest groups and reactionary elites. This is made possible through state control over both the mobilization and allocation of scarce resources under the guidance of politically insulated technocrats in the civil service (Haggard, 1990; Joshi, 2012; Migdal, 1988; Wade, 1990).

Most importantly, social embeddedness of industrial policy has allowed the developmental states to catch two pigeons with one bean: promoting competitive export industries while pacifying less competitive sectors. South Korea in the 1970s and the 1980s was the best example (Lee, 2011; Sohn, 2006). When combined with the autonomous developmentalist trade policy, embeddedness allows states to go beyond welfare states as defined by the traditional 'embedded liberalism' literature (Koo, 2010).

The nexus between developmentalism (industrial policy goals) and liberalism (issue scope of trade liberalization) can be categorized as follows:

First, *developmental mercantilism/sectoralism* refers to the characteristics of trade liberalization with a strong industrial policy goal orientation in narrow issue areas. The ideal type of this category can be found in the Japanese developmental strategy in the 1960s and the 1970s that centered on rapid growth through domestic protection, industrial policy, and export promotion. Pempel (1998: 5-10) characterizes such trade policies as 'embedded mercantilism.'

Second, *market-based sectoralism* or *sectoral cronyism* refers to the characteristics of trade liberalization with a weak industrial policy goal orientation and a narrow issue scope. As Aggarwal and Ravenhill (2001) note, sectoral and narrow-based trade negotiations to open markets can lead to both positive and negative consequences. On a positive side, it can eventually facilitate comprehensive trade liberalization by working on narrower but easier issues first (market-based sectoralism). On a negative side, it can ultimately sap the political momentum needed to reach an over-arching multilateral agreement (sectoral cronyism).

Third, *developmental liberalism* refers to the characteristic of trade liberalization with a strong industrial policy goal orientation in broad issue areas. The institutional marriage of developmentalism and liberalism may sound like an oxymoron. However, they can be compatible with each other to the extent that top-down, government-led market opening efforts through FTAs can promote competitive export industries while pacifying less competitive sectors with generous side payments. Here developmentalism is brokered by the social embeddedness of industrial and trade policies. Under the competitive pressure of globalization, no country can escape from the formidable market force if it wishes to secure

⁵ Peter Evans uses the term 'embedded autonomy' to demonstrate that successful developmental states in East Asia tend to be immersed in a dense network of ties that bind them to groups or classes that can become allies in the pursuit of societal goals. According to Evans, embeddedness provides sources of intelligence and channels of implementation that enhance the competence of the state. In his logic, therefore, the idea of the state as midwife comes to the fore: States foster industry by changing social structures and by assisting in the emergence of new social groups and interests (Evans, 1995). From this viewpoint, the impressive institutional constructions that went with embedded autonomy in South Korea are contrasted to the often inconsistent state efforts by Brazil and India to generate local entrepreneurial groups in the 1960s and 1970s.

Table 1. Industrial Policy and Trade Liberalization Nexus

		Issue scope of trade liberalization	
		Narrow	Broad
Industrial policy goals	Strong	Developmental mercantilism/sectoralism	Developmental liberalism
	Weak	Market-based sectoralism or sectoral cronyism	Market-based liberalism

the benefit of international trade. Unlike the traditional multilateral mechanism of the GATT/WTO, FTAs between partners of unequal or asymmetric bargaining powers often make it less likely that one partner will get a free ride on the other's market, as illustrated by substantial concessions given by South Korea and Mexico to the U.S. to conclude an FTA. Nevertheless, there is a room for individual governments to maneuver to promote priority sectors and to compensate for the losses inflicted on uncompetitive sectors (Koo, 2010).

Fourth, *market-based liberalism* refers to the characteristic of trade agreements with a weak industrial policy goal orientation and a broad issue scope. This category is equivalent to the neoliberal view that states should not have a vertical or sectoral industrial policy, as opposed to a horizontal or genuinely interventionist policy and that trade liberalization should include 'substantially' all the trade. Table 1 summarizes this categorization.

3. THAILAND: MOVING FROM MARKET-BASED LIBERALISM TO SECTORAL CRONYISM

3.1 The Rise and Fall of Market-based Liberalism

In the early 1970s, Thailand shifted its trade policy platform from import-substitution to export-oriented strategy. Fueled by a large amount of capital inflows, labor-intensive industries transformed Thai's once predominantly agricultural economy into a manufacturing one.⁶ Before the AFC, Thailand remained as a highly open and globally integrated economy, as indicated by its pursuit of non-discriminatory unilateral liberalization under the GATT/WTO regime (Kwon, 2003; Sally, 2007). The volume of merchandise trade amounted to over 80 percent of Thai's GDP in 1997. For a decade before entering the AFC, Thai economy grew about 10 percent each year (Bank of Thailand, 1998).

Having taken over the power to cope with the AFC, the Chuan Leekpai administration (1997-2001) carried out a series of internal economic reforms under the guidance of the IMF. It also maintained the trade policy orientation that had been formed around the *market-based liberalism* since Thailand joined the GATT in 1982. Chuan and his cohorts, especially Commerce Minister Supachai Panitchpakdi, strongly believed that expanding export and FDI

⁶ The share of agriculture, forestry and fisheries in national income decreased from 47 percent in 1950 to 10 percent in 1990, while that of manufacturing sectors increasing from 23 percent in 1986 to 35 percent in 2001. See the Office of the National Economic and Social Development Board at <http://www.nsedb.go.th/>.

would be crucial for the recovery of Thai economy. They lifted a wide range of regulations on businesses and offered various incentives to foreign investors (Sen and Sally, 2005).

However, the reform programs under Chuan lost their appeal as they inherently featured IMF's bailout programs. Chuan's recovery programs were too biased towards the financial and monetary sectors, only to cause unintended side effects such as increasing government debts, income inequality and corruption scandals. The GDP growth rate fell from 4.4 percent in 1999 to 2.2 percent in 2001. The Chuan administration failed to garner the support from the common Thais, especially the low and middle classes. Rapidly rising prices of imported goods, induced by Baht's devaluation by over 50 percent, caused public resentments (Thitinan and Sally, 2008; Thitinan, 2011).

The plight of the common Thai eventually set off revenge votes against the ruling party in the 2001 general election, leading the Thai Rak Thai (TRT) party led by a business tycoon Thaksin Shinawatra to win a landslide victory. Upon taking the office in 2001, Prime Minister Thaksin launched the so-called *Thaksinomics* (Pran, 2004). TRT's parliamentary majority provided *Thaksinomics* with stable political foundations.⁷ During the earlier period of his tenure, Thaksin confidently exercised his leadership in pursuing fundamental economic reforms. On the one hand, he implemented a fiscal stimulus package to relieve the economic problems of the have-nots in urban and rural areas, who constituted over 80 percent of the whole population. On the other hand, he adopted an aggressive trade policy moving from multilateralism to bilateralism. The failure in Seattle in 1999 to launch a new multilateral round and the stalemate of the subsequent Doha negotiation of the WTO further accelerated such a trade policy transformation (Bidhya, 2004).

As will be discussed in the next section, this indicates a significant departure from the earlier emphasis on *market-based liberalism* to *developmental liberalism*. With a set of strong industrial policy goals, the Thaksin administration intended to play an important role in selecting FTA partners and defining the geography, scope and strength of bilateral FTAs.

3.2 The Rise of Developmental Liberalism

When Thaksin took office, Thailand's trade policy was placed in a nut-cracking situation between global pressure for trade liberalization and domestic demand for protectionism. Although the Thaksin administration had a fear of exclusion from global market, it was difficult for Thaksin to accept neo-liberal pressure unconditionally. Among others, two co-founding members of TRT party—Pansak Vinyaratn (former economic advisor) and Somkid Jatusripitak (former Finance and Commerce Minister)—persuaded Thaksin to change the trade policy platform from the previous market-based liberalism to finely-tuned government-led *developmental liberalism* (Talerngsri and Vonkhorporn, 2005).

As of 2001, Thai economy was increasingly losing its growth momentum across the board. As noted above, the real GDP growth rate decreased from 4.4 percent in 1999 to 2.2 percent in 2001. The growth of manufacturing industry also slowed down from 11.9 percent to 1.4 percent during the same period. The speed of falling export goods was even more dramatic: from 12.1 percent in 1999 to 0.3 percent 2001 (NSO, 2007; IMF, 2013). In addition, the inflows of foreign investment into manufacturing sector fell from 6.5 percent of GDP in 1998 to 2.7 percent in 2001 (BOT, 2001). It was a worrisome development for Thai

⁷ The TRT party secured a near-majority of seats of the House of Representatives in 2001 and the absolute majority in 2005.

policymakers because manufactured goods—such as computers and their equipment, automobiles and auto parts, apparels, and plastic products—accounted for about 40 percent of Thailand's total exports.

The competitiveness of Thailand's export sectors tumbled, losing many export markets. There was a growing perception in the policy circle that Thai economy was sandwiched between the lower-wage countries such as China, India and Vietnam and innovative newly industrialized countries such as South Korea, Taiwan, and Singapore. For example, the average labor cost of simple production-level worker in manufacturing industry was almost five times higher than that of Vietnam in 2001 (Kang, 2002). Vietnam competed with Thailand in Thailand's top five export markets for Thailand: the U.S., Japan, Singapore, Hong Kong, and China, which together took up about 55 percent of Thailand's total export. Consequently, its trade balance surplus shrank from 10.3 percent of GDP in 1998 to 2.6 percent in 2001 (NSO, 2007).

One of the urgent tasks of government intervention was to rehabilitate the competitiveness of export industries and to secure more accessibility to foreign markets, while pacifying the uncompetitive import substituting industries. Under the growing neo-liberal pressure for market opening and the rise of China and India as manufacturing powerhouse, the Thaksin administration switched its trade policy platform from the GATT/WTO-based multilateralism to a preferential approach centered on bilateral FTAs. In a proactive and preemptive move, Thaksin proposed bilateral deals during his visit to Japan in November 2001 and the U.S. in December 2001 (Nation, 2001). The pursuit of *developmental liberalism* in trade policy was an inevitable choice for his administration to survive in a global stalemate of export markets and to maintain his domestic power base at the same time.

Thaksin presented himself as a man who could get things done and was clearly inspired by the paternalist-authoritarian and developmental approach of Singapore's former Prime Minister Lee Kwan Yew. He promised to solve the social problems of the rural communities, to protect the interest of domestic business, and to transform the Thai economy into an innovative, knowledge-based, and internationally competitive entity (Brown and Hewison, 2005). Industrial upgrading was a catchphrase for his developmental liberalism. Thaksin thought that industrial upgrading through bilateral FTAs would offer Thailand a new leap forward to the first-tier country (Lauridsen, 2008).

The Thai government began to consider FTAs as a policy option in the late 1990s. But it was only after Thaksin took office that FTAs became a serious policy bias (Nagai, 2002: 10; Sally, 2007). The turning point of Thaksin's new trade policy came in late 2003 when the Cancun WTO Ministerial Conference in Mexico failed to produce any significant consensus on multilateral trade liberalization. Since its first bilateral FTA with India in 2003, the Thaksin administration signed a series of FTAs with Australia, New Zealand, Japan, South Korea, and BIMSTEC as shown in Table 2.

The highlight of Thaksin's trade policy based on developmental liberalism was the initiation of Thailand-U.S. FTA (TUSFTA) negotiations in July 2004. Given that Singapore was the only country as of 2004 in East Asia which concluded a comprehensive FTA with the U.S., it was a bold move for a developing country like Thailand to start an FTA negotiation with the world's largest economy. It was also a desperate move for Thaksin to reverse the declining trade surplus with the U.S.⁸ In 2001, the trade surplus with the U.S. was

⁸ In the previous five years, Thailand's trade surplus with the U.S. dropped by 24 percent from 8.5

Table 2. Thailand's Multitrack FTA strategy

		Number of partners	
		Bilateral	Minilateral
Geographic scope	Geographically concentrated	India (3.18%, 2003, 2010)* ** China (15.51%, EHS since 2003)*** ****	BIMSTEC (6.92%, 2004, 2010)*****
	Geographically dispersed	Australia (3.17% 2004, 2005) New Zealand (2.73% 2005, 2005) Japan (26.01%, 2005, 2007) U.S.(17.97%, pending since 2006) Peru (1.12%, pending since 2004) Bahrain (0.97%, pending since 2004) Chile (1.11%, under study) Czech (0.68%, under study) Croatia (0.59%, under study) Mexico (1.22%, under study) Pakistan (0.78%, under study) South Africa (0.49%, under study) Sri Lanka (0.98%, under study)	ASEAN-Korea (10.93%, 2005, 2006, 2007, 2009)*****

Source: IMF, *The Direction of Trade Statistics*, 2012. WTO RTA Database 2014

* % scores indicate the value of bilateral trade as a portion of Thailand's total trade (export + import) in 2012.

** The figures after the % scores indicate the year of signing the agreement and the year of the agreement coming into force.

*** EHS: Early Harvest Scheme

**** Including Hong Kong

***** BIMSTEC: The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation

***** ASEAN has the following agreements with South Korea: framework agreement on comprehensive economic cooperation, signed in 2005; agreement on trade in goods, signed in 2006 and came into force in 2007; agreement on trade in services, signed in 2007 and came into force in 2009; agreement on investment, signed in 2009 and came into force in 2009.

about 6 billion dollars, while Thailand's total trade surplus was 3.5 billion dollars (MOC, 2004). A successful conclusion of TUSFTA negotiations would be a last resort to the Thaksin government to revitalize Thai economy.

In the early stage of TUSFTA negotiations, the Thaksin government stood on a solid political ground. Thaksin was the first elected Prime Minister to serve a full term until February 2005. Once again, he won a landslide victory in February 2005 general election, securing the absolute majority for his second term. The ruling TRT party gained 377 seats out of 500 in the Thai House of Representatives. The public support for the government remained high. Encouraged by election results, Thaksin reaffirmed his determination to the members of the National Assembly that he would push forward the developmentalist trade

billion dollars in 1999 to 6.5 billion in 2003 (MOC, 2004).

liberalization in every corner of industries and help upgrade Thai industries toward knowledge-based ones to catch up with other newly industrialized countries. As will be discussed in the next section, however, it was the beginning of the fall of Thaksin's developmental liberalism.

3.3 The Fall of Developmental Liberalism and the Rise of Sectoral Cronyism

To facilitate his ambitious goal of industrial upgrading, Thaksin needed a faster trade policy-making process than before. Any dissident voices could not be tolerated. It was against this backdrop that Thaksin's cohorts took over the direct control of trade policy machinery by bypassing the existing bureaucratic hierarchy.⁹ Thaksin and his cohorts wanted to recreate Thailand as economic powerhouse. The first half of his rule looked as if Thailand was turning to 'Thailand, Inc.' However, it ended up with 'Thaksin, Inc.' (Bidhya, 2004; Pasuk and Baker, 2009; Thitinan, 2011).

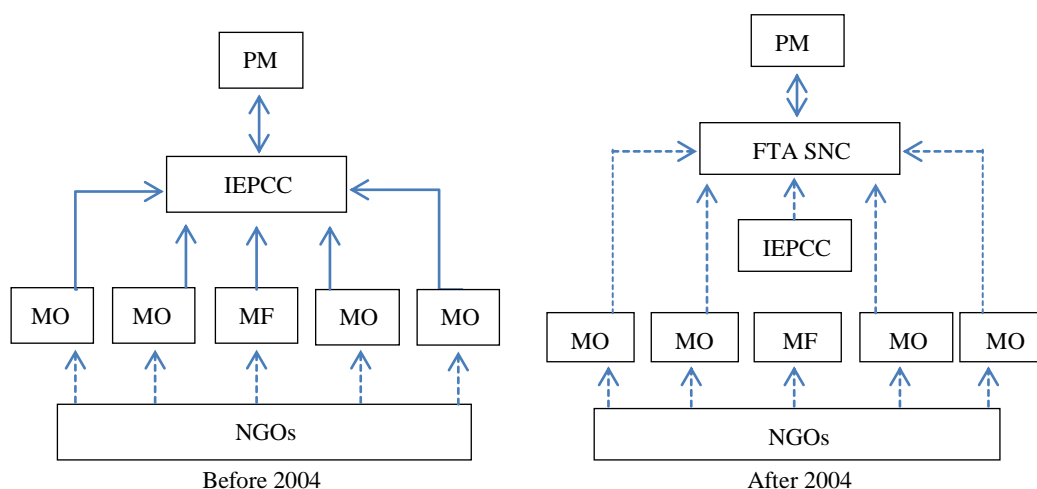
Thaksin centralized the political and administrative structure, which was fragmented by political factions and bureaucratic departments.¹⁰ He made decisions lightning-fast and expected bureaucrats to carry them out quickly and unquestioningly (Baker and Pasuk, 2004). During the process of FTA negotiation with the U.S., Thaksin and his new appointees set up a new agency, the FTA Strategy and Negotiations Committee (FTA SNC). Before Thaksin came to power, the traditional control tower of trade policy was the International Economic Policy Coordination Committee (IEPCC). Led by the Ministry of Commerce (MOC) and the Ministry of Foreign Affairs (MFA), the IEPCC coordinated conflicting views among government agencies such as the Ministry of Finance (MOF), the Ministry of Agriculture (MOA), the Ministry of Industry (MOI), and the like. But under Thaksin, the IEPCC and other government agencies were bypassed and Thaksin's political appointees directly reported to the FTA SNC as well as Thaksin (Talerngsri and Vonkhorporn, 2005). Under this new *ad hoc* structure, the Thaksin government unilaterally pushed ahead with TUSFTA negotiations with a tight deadline for completion.

Unfortunately for Thaksin, the plan did not go as planned. It was increasingly becoming clear that FTAs were not a panacea for resolving Thailand's economic woes: falling GDP growth rates, worsening trade balance, and declining industrial competitiveness. To make matters worse, the anti-Thaksin movement, fueled by anti-TUSFTA sentiments, began to spread widely across the country. Under the slogan of 'knowledge-based economy', Thaksin and his TRT party tried to cement their power base by pledging a lot of populist programs for

⁹ The key members and advisors in Thaksin's policy inner sanctum were composed of many businessmen and neo-liberal scholars such as Somkid Jatusripitak, Pansak Vinyaratn and Suvit Maesincee. Somkid, the former Finance and Commerce Minister, was a co-founder of the Manager Media Group and a director of the Saha Pattanapibul Group, a major Thai consumer goods conglomerate. Pansak was a director of the Bangkok Bank Group and an editor of media tycoon Sondhi Limthongkum's *Asia Times*.

¹⁰ The centralization of his power was not confined to the cabinet, parliament and bureaucracy. Thaksin also moved to gain control over the armed forces, the police, the independent watchdog mechanisms (e.g. the National Counter Corruption Commission, the Elections Committee and the Constitutional Court), the media, non-governmental organizations and civil society. He looked on the country as a company and wanted to be CEO Thaksin (Lauridsen, 2008: 425).

Figure 1. Thailand’s Trade Policy Decision-making Structure



Source: Author edited based on Sally (2007) and Thitinan (2011)

* —▶: Direct report and interaction,▶: Indirect report and weak influence in policy decision-making process

the low-income rural and urban classes.¹¹ But very few of their campaign pledges to support the poor were actually realized.

The U.S. demanded Thailand to make comprehensive concessions, especially in market access, trade rules, and intellectual property rights (IPR), while showing a narrow bargaining zone in the areas of Thailand’s interest such as automobile and its parts, electronics, rice, sugar, ‘Mode IV’ service issues, agricultural subsidies, sanitary and phytosanitary measures, and anti-dumping duties.¹² Thai media began to air nightmare stories that Thailand’s economic sovereignty was for sale and that the American multinational companies would take over the entire Thai economy.

During the TUSFTA negotiation, Thailand was divided into proponents and opponents. Large agro-industries, high-tech corporations, and other export-oriented industries supported a free trade deal with the U.S. In contrast, small-scale farmers and fishermen, pharmaceutical industry, intellectual property industry, and service sector opposed the deal for fear of facing market opening pressure from the U.S. (Laudrisen, 2008). Opposition parties and NGOs such

¹¹ For instance, Thaksin promised to protect the poor and industries that would be damaged by FTAs through subsidies, debt redemption postponement, trade adjustment assistance, customs refund, and the like (Kang, 2002).

¹² The U.S. pushed Thailand to open its market wider in the sectors of agriculture, healthcare and services for U.S. multinationals. Aside from the investor-state dispute settlement, the U.S. also demanded the protection of intellectual property rights to be included in the deal. America’s demand list included: an extension of patent protection to 25 years (compared with 20 years in TRIPS), data-exclusivity rights (to protect clinical trial data from being used by generic manufacturers) for several years after the expiry of patent protection and extension of copyright protection to 70 years (compared with 50 years in TRIPS) (Sally, 2007).

as FTA Watch¹³ and the People's Alliance for Democracy (PAD)¹⁴ effectively organized the anti-Thaksin and anti-TUSFTA movement. They called for Thaksin's step-down. Many Thais turned their back against Thaksin and his government. The TUSFTA negotiation reached an impasse (Thitinan, 2011).

Thaksin's developmental liberalism also faced the backlash from the government bureaucracy. A CEO-turned-politician Thaksin neglected the voice of bureaucratic elites. Basically before Thaksin, the power of Ministers was relatively weak as compared to the director-general and director-level power. Traditionally, this bureaucratic structure gave trade officials at the executive level autonomy and authority (Lauridsen, 2008). However, Thaksin did not recognize such autonomy and authority. Instead of relying on the old bureaucratic establishment, he created new ministries and departments. He filled new positions with his cronies, while silencing his opponents ruthlessly. The increasing tension between trade technocrats and Thaksin's cronies severely weakened the checks and balances system. With the conflict over the chain of command escalating, the negotiation capacities and skills accumulated from the trade negotiations during the previous two decades were not fully utilized. Effective policy coordination among different ministries and the office of the Prime Minister was not possible. As it turned out, developmental liberalism became unsustainable.

The launch of TUSFTA negotiations marked the highest point of Thaksin's developmental liberalism. Yet, his new policy platform came to a sudden end as the negotiations with the U.S. made no progress. The once broad-based scope and strength of industrial policy became narrow and weak as the TUSFTA negotiations proceeded. Many in Thailand began to doubt whether or not TUSFTA would benefit Thailand, Inc. rather than Thaksin, Inc. Attention to *developmental liberalism* was now transferred to *sectoral cronyism*, which had been incubated in the patron-client nexus under Thaksin.¹⁵

The so-called 'patronage system' allowed a rent-seeking behavior by Thaksin and his cronies within the inner circle. For instance, an auto parts firm, owned by the Minister of Transportation, Suriya Jeungrungruangkit, enjoyed a 75 percent increase in exports of auto parts to Australia during his tenure under Thaksin (Thitinan, 2011). Thaksin and his family were also involved in the corruption allegations. The Shinawatra family sold their entire stake in Shin Corporation to the Temasek Holdings on January 2006 during the TUSFTA negotiation. The Shinawatra and Damapong families netted about 73 billion baht (about 1.88 billion dollars) from the sale, using a regulation that made individuals who sell shares on the stock exchange exempt from capital gains tax. The deal made Thaksin the target of accusations of corruption and selling an asset of national importance to a foreign entity.¹⁶

¹³ The FTA Watch was an umbrella organization of 17 NGOs that collectively formed a powerful anti-Thaksin group. It was the leading group against the Thailand-US FTA negotiations, including the 6th bargaining event at Chiang Mai in January 2006. Its activists and proponents ultimately became potent political actors who played a crucial role in laying the conditions that led to Thaksin's downfall (Theerada, 2007; Thitinan, 2011).

¹⁴ PAD consisted of both working and middle class Bangkokians, academics, and students.

¹⁵ Thaksin created six new ministries and seventeen departments for his patronage politics by making more senior government positions available for his supporters. Thaksin appointed some of his leading cabinet members who hailed from the country's largest agro-industry conglomerate and a major auto-parts business group (Lauridsen, 2008).

¹⁶ In 2008 Thaksin was sentenced to two years imprisonment in absentia over a corrupt land deal. That

The TUSFTA, had it been signed during Thaksin's term, would have been the most comprehensive FTA in East Asia ahead of South Korea's deal with the U.S. in 2007. But his attempt ended up with a failure as he was forced to resign himself by a military coup that took place on September 19, 2006, only eight months after the TUSFTA deal came to a standstill. The root cause of failure of the Thaksin administration's trade policy transition into developmental liberalism via FTAs was mainly caused by the failure in embedding the new policy idea into the social fabric while institutionalizing the trade policy-making processes. On the one hand, the centralization of political power made Thaksin stay in power for a long period and allowed him to pursue *Thaksinomics* in light of developmental liberalism. On the other hand, the privatization of decision-making power eventually led to the rise of sectoral cronyism, departing from his grand but false promise of transforming Thai economy into a knowledge-based one.

4. SOUTH KOREA: MOVING FROM DEVELOPMENTAL MERCANTILISM TO DEVELOPMENTAL LIBERALISM¹⁷

4.1 The Fall of Developmental Mercantilism

At the end of 2011, South Korea became the ninth country to join the 'one-trillion-dollar trading club', departing from the ranks of newly industrializing economies to join the ranks of trade giants. After reaching the \$100 billion mark in 1964, South Korea's exports grew more than five thousand times in a matter of 50 years, making it the seventh-largest exporting country in the world (Koo, 2013: 95).

The story of South Korea is a good example of developmental mercantilism.¹⁸ Its economic development model has often been characterized as export-oriented industrialization (EOI). To a large extent, however, South Korea also adopted an import-substitution industrialization (ISI) to protect internally uncompetitive sectors. With its mixed, mercantilist strategy, South Korea has gained significantly from the multilateral trading regime of the GATT/WTO. Under the auspices of America's Cold War strategy, South Korea benefited from the export market provided by the GATT/WTO while claiming 'developing country' status in the GATT/WTO on various occasions.

South Korea's developmental mercantilism traces back to the early 1960s under President Park Chung-hee who in May 1961 overthrew the fledgling democratic regime that had replaced Syngman Rhee's in the previous year. Following in the footsteps of the Japanese developmental model, Park's active promotion of the export sector allowed his once reclusive country to aggressively join the global market. South Korea's full integration into the world trading system was not a matter of choice but of survival. The institutional marriage of developmentalism and mercantilism quickly spread throughout the country, brokered by the social embeddedness of industrial policies (Koo, 2013: 96-97; Lee, 2012).

The role played by the Economic Planning Board (EPB) was most notable. The EPB was

made him the first Thai politician to be convicted for corruption committed during prime ministership.

¹⁷ This section builds upon and extends the first author's earlier work on this subject as noted in the bibliography.

¹⁸ For more discussions about South Korea's developmental state, see Amsden (1989) and Woo-Cumings (1999).

created in 1961 to conduct the military government's strong commitment to economic development. It took over the functions of comprehensive development planning and foreign cooperation from the Ministry of Construction. It also absorbed the Bureau of Budget from the Ministry of Finance and the Bureau of Statistics from the Ministry of Home Affairs to ensure the effective implementation of the development programs. The institutional autonomy of the EPB made the agency possess a broad and long-term perspective, while enjoying a high degree of flexibility in making economic policy choices. This turned out to be crucial in steering South Korea's economic development in the direction deemed most desirable (Choi, 2013: 32-33).

As a result, South Korea's GDP grew at an average annual rate of 8.8 percent during the period 1965-79 while its international trade increased almost sixtyfold for the same period. South Korea's total trade as a share of GDP rose over 50 percent for the first time in 1973. President Park's authoritarian successors, Chun Doo-hwan (1981-88) and Roh Tae-woo (1988-93), continued with the developmental mercantilist strategy. During this period, South Korea's GDP expanded more than four times from US\$71.5 billion in 1981 to US\$329.9 in 1992 (Koo, 2013: 99-102).

South Korea's developmentalist trade policy provided minimum safeguards for uncompetitive import-competing sectors by instituting multilayered trade barriers. During the Uruguay Round (UR) of trade talks, for instance, the South Korean government made desperate efforts to protect rice and other agricultural and fishery products. Although South Korea had to agree to open its agricultural market under the UR agreement, its sensitive agricultural sectors such as rice and dairy remained largely outside the global competition (USTR, 2006).¹⁹

For the past two decades, however, South Korea's trade policy platform has been transformed significantly thanks to globalization. The outbreak of the AFC shattered the illusion of South Korea's unstoppable economic growth. In addition, South Korea's top policymakers began to recognize that the mediocre performance of the WTO and increasing competition in its traditional export markets could hurt export-dependent South Korea (Cheong, 1999; Sohn, 2001). It became clear that developmental mercantilism alone was not able to cope with the unprecedented economic hardships.

In response to the financial and economic turmoil, the Kim Dae-jung government (1998-2003) implemented the so-called 'IMF reforms', which significantly changed South Korea's earlier developmentalist path. His reform efforts led to the steady demise of the symbiotic relationship between government and business as symbolized by 'Korea, Inc.' (Lee and Han, 2006). Even with changes, however, the reform process reflected the legacies of the developmental state, with the state still playing an important role in planning, implementing, and sustaining economic reforms (Koo, 2010: 111).

In spite of initial opposition from the political and bureaucratic establishment, the Kim's administration was more willing than any other previous administrations to promote competition by applying market discipline to various sectors of the economy. Another development was that market entry and exit became much easier during his presidency. Kim also took the initiative in shifting South Korea's trade policy away from its earlier focus on access to the U.S. market through global multilateralism and the protection of uncompetitive

¹⁹ South Korea has been allowed to gradually increase its rice import quotas—instead of fully opening its rice market—under an agreement with the WTO. The deal expired at the end of 2014 and the South Korean government will have to scrap rice-import caps from 2015.

domestic industries (Koo, 2009: 186-88). The Kim administration attempted to use foreign competitive pressure to enhance domestic efficiency as illustrated by the departure from its traditional mercantilist policy toward an active pursuit of FTAs.

At first, South Korea was a newcomer in a world of FTA negotiations and had difficulty in choosing its FTA partners. The Kim government contacted a number of countries, but only a few of them showed explicit interest. In November 1998, the government's Inter-Ministerial Trade Policy Coordination Committee announced that South Korea would start FTA negotiations with Chile, mainly because of that country's complementary industrial structure and the potentially low level of threat to South Korea's agriculture due to the seasonal differences. For South Korea, Chile's experience in FTA negotiations was an additional attraction. Subsequent FTA partners were to be selected from a list of small and medium-sized countries (Park and Koo, 2007: 266-67; Sohn, 2001). The two countries signed the first cross-Pacific FTA in February 2003.

As seen in the case of Thailand, the structural changes that followed the AFC contributed significantly to a growing belief that bilateral liberalization was not only complementary to multilateral liberalism but also a crucial element of economic survival. The crisis effectively gave the South Korean government broad public tolerance for executive initiative for a more liberal trade policy. The economic crisis muted the country's once rigid protectionist voices in favor of liberal economic policy reform (Koo, 2010; Mo, 1999; Mo and Moon, 2003).²⁰

Kim's reform ushered in an irreversible transformation of South Korea's trade policy paradigm. Although the link between FTAs and domestic reforms was not clearly defined, Kim's FTA policy reflected his liberal policy ideas. Ironically, such a liberal shift ultimately intended to resuscitate South Korea's developmentalism focused on export industries. The Kim Dae-jung administration wanted to ensure the survival of most of South Korea's major export firms, but at the same time clearly understood that post-crisis external conditions would not allow South Korea to free-ride on others' market any longer, as it did under the auspices of the GATT/WTO (Koo, 2010: 111).

4.2 The Rise of Developmental Liberalism

The policy shift toward FTAs under President Kim marked a dramatic shift from a developmental mercantilist policy platform. The liberal posture was in clear contrast with generally protectionist attitudes held by most previous administrations in relation to market opening. President Kim Dae-jung obviously was not the first South Korean leader to talk about the country's need for structural reform. Yet, the Kim administration stood out, among other things, for its greater willingness to introduce market discipline to various sectors of the economy that were traditionally protected from competition.

As his successor, President Roh Moo-hyun (2003-2008) entered office in 2003 and completed the roadmap for FTAs and detailed action plans for its multi-track FTA strategy (MOFAT, 2006; Lee, 2006). In contrast to its rather peripheral status on Kim's economic and

²⁰ The domestic political structure facilitated South Korea's liberal turn. In the immediate aftermath of the AFC, South Korea's protectionist veto players, such as labor unions and farmers' organizations, were temporarily disorganized due to President Kim's liberal reform and the austerity program imposed by the IMF (Chang, 2007: 69). Although some farmers' groups and labor unions remained militant, their political influence weakened, as both their absolute and relative shares in the economy diminished (Koo, 2010).

strategic agenda, trade liberalization through FTAs became a serious policy bias of the Roh administration. Roh further expanded South Korea's FTA strategy by mobilizing comprehensive side payments to pacify those groups which would be negatively affected by trade liberalization.

At the turn of the new millennium, there was a growing concern in South Korea's manufacturing sector that its trade deficit would be enlarged as the Korean won (KRW) had been steadily appreciating since 2001, undermining South Korean manufacturers' price competitiveness in the global market. Not only *chaebols* but also small and medium-sized enterprises (SMEs) began to move their production facilities abroad to make up for the disadvantage. Securing export markets through FTAs thus became a top priority to the Roh administration. The Blue House and many trade officials regarded the sacrifice of less competitive sectors such as agriculture to be necessary for broader national interests (Koo and Jho, 2013).

This trend took its most pronounced form when South Korea concluded an FTA with the U.S. in 2007.²¹ The South Korea-U.S. FTA (KORUS FTA) represents the ever most important FTA for South Korea and one of the most commercially significant FTAs for the U.S. after the conclusion of North American free trade agreement (NAFTA) in 1993. The negotiation process was not an easy one. Since the signing of the agreement, the two countries had to struggle with even tougher legislative ratification processes. On 3 December 2010, additional negotiations were finally concluded. On October 12, 2011, the US Congress passed the agreement. About a month later after the congressional move, the National Assembly of South Korea also ratified the bilateral trade deal, thus finally ending a four-and-a-half year long legislative battle on both sides of the Pacific (Koo and Jho, 2013: 66; Sohn and Koo, 2011: 434).

The KORUS FTA clearly illustrates that the fear of exclusion from the U.S. market played a significant role in South Korea's decision to start FTA negotiations with the economic superpower despite serious concerns about that country's dominant position in the global economy. Initially, the Roh administration's move toward the KORUS FTA came as a surprise because, according to its original FTA road map, a comprehensive FTA with a large economy like the U.S. was a long-term goal, while deals with light trading partners such as Chile, Mexico, and Canada had top priority (Koo, 2009; Koo and Jho, 2013; Sohn and Koo, 2011).

This change in the sequence of FTA partner selection meant an implicit but noticeable emphasis on strategic value in South Korea's FTA equations (Lee and Moon, 2008). Certainly, South Korea expected huge economic gains from an FTA with the U.S. South Korea's top policy elites believed that an FTA with the U.S. would accelerate South Korea's market-oriented reform process and upgrade its economy, thus helping overcome the likely scenario of a South Korea 'sandwiched' between Japan and China (Sohn, 2006). On this score, South Korea's then trade minister, Kim Hyun-chong, was particularly enthusiastic. He made it no secret that the KORUS FTA would be an effective way to transform the structure of the Korean economy, departing from its replication of the Japanese developmental model

²¹ After eight intensive rounds of negotiations since June 2006, South Korea and the U.S. concluded a landmark deal on April 1, 2007 and signed it on June 30, 2007. Prior to the U.S., Japan was a natural candidate for South Korea's FTA partner. The two countries had held six rounds of negotiations since December 2003 until they came to a halt in November 2004 due to disagreements on the speed and coverage of bilateral trade liberalization (Park and Koo, 2007: 263).

and adopting an American-style liberal economy.²²

President Roh became a champion of the FTA as a diplomatic tool to strengthen strategic ties with the U.S. He supported Minister Kim's ambitious idea at the cost of his loyal constituents, including progressive civil groups, labor unions, and farmer groups. He clearly understood the strategic utility of the FTA. Equally important was the fact that he became a true believer in free trade and market opening as a key to economic growth.²³ He tried to instill the market discipline to the sectors that had been traditionally sealed off from competition based on concerns that foreign competition may hamper the proper provision of goods and services in question. Departing from the Japanese 'flying geese' model of development, Roh argued, South Korea should find its economic future in high-tech and service industries, which would gain a growth opportunity in an expanded U.S. market (Sohn, 2014).

Why and how did South Korea succeed in sealing a deal with the U.S. whereas Thailand failed to do so despite its first mover's advantage? In the past, South Korean trade negotiators' autonomy was institutionally weak at the domestic level and their policy ideas were overshadowed by mercantilism. By contrast, the empowerment of the Office of the Minister for Trade (OMT) in South Korea after 2004 institutionally strengthened chief negotiators' autonomy *vis-à-vis* trade negotiations.²⁴ Such an increased autonomy, combined with chief negotiators' free-trade ideas as well as their own institutional interests, allowed the OMT to pursue proactive and comprehensive trade deals with major trading partners (Koo and Jho, 2013: 67-68).

As a champion of liberal economic ideas, the OMT was relatively insulated from pressure from special interest groups, which in turn prevents it from obtaining sufficient public support for FTAs.²⁵ Its decision to pursue an FTA with the U.S. initially prompted a mercantilist outcry that it would serve only America's neoliberal interests.²⁶ In contrast to their temporary disorganization during the Kim Dae-jung period, traditional protectionist

²² Interview with Minister Kim Hyun-chong, May 2009, quoted in Sohn and Koo (2011).

²³ Interview with Minister Kim Hyun-chong, May 2009, quoted in Sohn and Koo (2011).

²⁴ The 1998 government organization reforms established the OMT under the Ministry of Foreign Affairs and Trade to facilitate negotiations of trade liberalization. Institutionally, the empowerment of the OMT demonstrated renewed enthusiasm and commitment under Roh as the once beleaguered institution took firm root within the government with its mandate to initiate and negotiate FTAs. However, the trade negotiation authority is now delegated to the Ministry of Trade, Industry and Energy as a result of the 2013 government organizational reform.

²⁵ OMT's neoliberal policy orientation was further highlighted by the appointment of its third trade minister, Kim Hyun-chong, in July 2004, as well as the promotion of its first trade minister, Han Duk-soo (1998-2004), to deputy prime minister and minister of finance and economy. For the critics of neoliberal economic policy as well as hardcore Korean nationalists, Trade Minister Kim was a bad choice, not only because he advocated neoliberal economic policies, but also because he grew up in the U.S. and was trained there as a lawyer, which allegedly undermined his nationalist credentials (Koo, 2009: 189).

²⁶ South Korea's uncompetitive sectors felt more victimized by the Roh administration's FTA initiatives with strong liberal overtones. For those skeptics, Roh's effort to restructure the Korean economy by inviting external pressure, the FTAs, would only worsen the economic polarization in South Korea, rather than providing an opportunity to upgrade its economy to a more advanced level (Lee, 2006: 6).

groups under Roh Moo-hyun recovered from the shadow of financial crisis and began to work closely with anti-globalization NGOs and anti-capital labor unions. Some radicals even dubbed the implicit linkage of the KORUS FTA to neoliberal reforms ‘the second IMF-imposed liberalization’ (National Emergency Conference, 2007; quoted in Koo, 2010: 114).

Nevertheless, the top-down nature of South Korea’s FTA initiative as promoted by the OMT indicates that its FTA strategy was inherently developmentalist in tone and scope. The Roh government argued that an FTA with the U.S. would most likely benefit its competitive sectors, such as automobiles and textiles, while a variety of side-payments—instead of blind protectionism—would effectively mitigate the losses resulting from greater trade openness.²⁷ Roh’s FTA initiative can thus be characterized as a tool for developmental liberalism rather than developmental mercantilism or neoliberalism (Koo, 2010: 108).

The conservative Lee Myung-bak administration, which took office in February 2008, made a dramatic break with the progressive policies of the preceding 10 years. The FTA strategy was one of the few areas in which the Lee administration followed in the footsteps of its predecessors. Despite huge political adjustment costs due to the U.S. beef imports controversy in the first half of 2008, the Lee administration remained committed to the multitrack FTA strategy originally designed by the Roh administration.²⁸ The conclusion of FTA deals with major economies like India and the EU during Lee’s presidency proved the point. At the ceremony for the conclusion of Korea-EU FTA negotiations on July 13, 2009, President Lee expressed his hope and belief that South Korea’s lagging service industry would benefit from freer trade with the EU as a powerhouse of the global service industry, accounting for 46.5 percent of global trade in services (Koo, 2010: 117).

Under these circumstances, the speed and scope of South Korea’s FTA initiative has been truly remarkable (see Table 3). The global economic crisis in 2008 has not reduced the speed and scope of South Korea’s FTA initiative. South Korea has thus far concluded fourteen FTAs—with Chile, Singapore, the European Free Trade Association, the Association of Southeast Asian Nations (ASEAN), the U.S., India, Peru, the European Union (EU), Turkey,

²⁷ With its market opening commitments, the Roh administration provided generous side payments in order to cushion citizens from the vagaries of the international economy in return for public support for openness. For instance, the ratification of the Korea-Chile FTA in February 2004 was followed by the passage of a special law designed to make up for its potential financial damage to the farming and fishing industries. Despite criticism of the government’s excessive financial commitment to declining sectors, over \$80 billion of public and private funds were earmarked for farming and fishing rescue programs over a 10-year period. Other examples include a series of pledged side payments in the form of government subsidies and grants-in-aid during the KORUS FTA negotiations. The Roh government also committed itself to provide cash allowances for seven years to compensate for up to 85 percent of income losses of farmers and fishermen once the KORUS FTA goes into effect (Koo, 2010: 114-15).

²⁸ In April 2008, the Lee administration announced that it would lift the ban on the importation of American beef, supposedly the final barrier to the ratification of the KORUS FTA. Imports of American beef had been virtually halted since 2003 after the detection of mad cow disease in the United States. The Bush administration claimed that it had resolved the disease problem and that U.S. beef was now safe to consume. Key U.S. lawmakers signaled that ratification of the KORUS FTA thus hinged on the lifting of the South Korean ban. The announcement that U.S. beef imports would resume, with some restrictions on the types of meat that would be allowed, sparked a series of mass demonstrations across South Korea. This seriously damaged the legitimacy of the then new Lee administration (Hundt, 2008: 508-09).

Table 3. South Korea's Multi-track FTA strategy

		Number of partners	
		Bilateral	Minilateral
Geographic scope	Geographically concentrated	Japan (10.81%, negotiation suspended since 2004)* ** China (24.85%, 2014, pending)***	Japan-China (35.66%, under study)
	Geographically dispersed	Chile (0.88%, 2003, 2004) Singapore (3.51%, 2005, 2006) U.S. (9.81%, 2007, 2011) India (1.50%, 2009, 2010) Peru (0.20%, 2011, 2011) Turkey (0.47%, 2012, 2012) Colombia (0.17%, 2013, pending) Australia (2.61%, 2014, pending) Canada (1.13%, 2014, pending) New Zealand (0.23%, 2014, pending) Mexico (1.14%, negotiation since 2006) South Africa (0.47%, under study) Russia (2.28%, under study) Israel (0.22%, under study) Vietnam (0.96%, under study)	EFTA (0.64%, 2005, 2006) ASEAN (10.93%, 2005, 2007, 2009, 2009)**** EU (11.06%, 2010, 2011) GCC (9.60%, negotiation since 2008) Mercosur (1.40%, under study)

Source: IMF, *The Direction of Trade Statistics*, 2012.

* % scores indicate the value of bilateral trade as a portion of South Korea's total trade (export + import) in 2011.

** The figures after the % scores indicate the year of signing the agreement and the year of the agreement coming into force.

*** Including Hong Kong

**** Korea has the following agreements with ASEAN: framework agreement on comprehensive economic cooperation, signed in 2005; agreement on trade in goods, signed in 2006 and came into force in 2007; agreement on trade in services, signed in 2007 and came into force in 2009; agreement on investment, signed in 2009 and came into force in 2009.

Colombia, Australia, Canada, China and New Zealand. If all of these agreements were fully implemented, over 67 percent of South Korea's total trade would be covered by bilateral or minilateral FTAs. South Korea has also been negotiating FTAs with Japan, Mexico, the Gulf Cooperation Council, Russia, and Vietnam. In addition, feasibility studies are under way with South Africa, MERCOSUR, Israel, Malaysia, and many other countries.²⁹

Such a policy shift nicely captures a different kind of dualism—that is, proactivism when selecting FTA partners and embeddedness when garnering domestic political support. On the one hand, the OMT institutionalized the idea of pursuing economic reforms and cementing strategic partnerships through FTAs. On the other hand, the success of its proactive negotiations has been achieved by social embeddedness consisting of generous compensation packages to support those who suffer damages from FTAs. The combination of market

²⁹ South Korea's Ministry of Trade, Industry, and Energy (<http://motie.go.kr/motie/py/ce/fta/ftaconcept.jsp>)

discipline and social embeddedness of government intervention allowed South Korea's trade elites to get around fierce opposition from the political and bureaucratic establishment who used to benefit from heavily protected domestic market. As such, the most important feature of South Korea's FTA strategy is that the reform process continues to reflect the legacies of the developmental state, with the state still playing an important role in planning, implementing, and sustaining economic reform (Koo, 2010: 118).

5. CONCLUSION AND POLICY IMPLICATIONS

The developmentalist trade policy is not passé. In the aftermath of the AFC and the GFC, it has shown its institutional resilience as illustrated by the rise of state intervention across the world. Not only East Asian governments but also many Western governments adopted industrial policies to promote and protect their industries.

This study began with an observation that the developmentalist trade policy has varied over time and space. East Asia is not an exception. Thailand and South Korea are two good examples of the varieties of developmentalist trade policy. For a more systematic comparison of their developmentalist trade policy, this study categorizes four different types of nexus between the scope of trade liberalization and industrial policy purposes: (1) developmental mercantilism/sectoralism; (2) market-based sectoralism or sectoral cronyism; (3) developmental liberalism; and (4) market-based liberalism.

The main findings of this study is two-fold: (1) Thailand's developmentalist trade policy has moved from *developmental liberalism* to *sectoral cronyism*, departing from its earlier focus on market-based liberalism centered on the multilateral trading regime of the GATT/WTO; and (2) South Korea's developmentalist trade policy has moved from *developmental mercantilism* to *developmental liberalism* by successfully institutionalizing the trade liberalization-industrial goal nexus within the government bureaucracy and the social fabric as well.

Having enjoyed economic booms for over two decades under the auspices of the GATT/WTO multilateralism, Thailand found itself in the middle of financial crisis in the late 1990s and again under the nut-cracking situation among catch-up economies at the turn of the new millennium. Thaksin came to Prime Minister's office in early 2001 with a vision to transform Thailand into a more advanced, knowledge-based economy by way of industrial upgrading. He adopted a developmental-liberal strategy, which enshrined in the departure from Thailand's traditional focus on GATT/WTO-based multilateralism to bilateral preferential agreements. Initially, the Thaksin administration had a clear set of industrial policy goals to promote its besieged manufacturing sectors by securing more export markets abroad through FTAs. However, Thaksin's trade policy offensive, having held much promise at first, ultimately fell victim to cronyism. Aside from too many FTA negotiations lining up with unrealistically tight deadlines, Thaksin's CEO-style leadership soon invited serious challenges from the civil groups as well as the government bureaucracy. He failed to institutionalize his new trade policy ideas. Even worse, his political cronies began to seek economic rents, thus degrading developmental liberalism into sectoral cronyism.

In contrast, South Korea used to be notorious for its developmental mercantilism: promoting export industries and protecting import-competing industries through various forms of government intervention. However, it successfully transformed its once-mercantilist trade policy platform into a developmental-liberal one by embedding industrial policy goals

into its business and social fabric. The role of the Office of the Minister for Trade was crucial in this regard. The OMT carefully coordinated decision-making processes while other related government agencies pacified otherwise protectionist interests by providing generous compensations. Although the OMT has been dissolved, South Korea's developmental liberalism will be sustained because of its institutional embeddedness.

The comparative analysis of Thailand and South Korea leads to three general conclusions.

First, both countries' dramatic embrace of FTAs has been driven by a top-down initiative by state elites rather than by a bottom-up demand from businesses. This is a developmental state characteristic. Both of them represent a notable policy departure in East Asia from the exclusive focus on the GATT/WTO toward government-led trade liberalization through FTAs. This is a liberal characteristic.

Second, their particular types of policy platform have varied not only over time but also over space. This means that there are the varieties of East Asian developmentalist trade policy rather than a single ideal type.

And third, the contrast between Thailand's sectoral cronyism and South Korea's developmental liberalism highlights the significance of institutions in promoting industrial policy goals and sustaining liberal trade policy at the same time. Although the right balance between embeddedness and liberal policy may continue to evolve, this study shows that developmental liberalism can be a prominent feature of East Asia's new developmentalist trade policy.

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