

Chapter 1

Culture of Development and Developmental Capacity of States: The Korean Case

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ABSTRACT

The main premise of this chapter is that state actions are crucial for economic development and those actions are partly shaped by the culture. Because some cultures are more conducive to development, it is engaged with the question: “Would it be possible to direct cultural change to serve economic development?” Since culture is a subject-object relationship, it might be possible to direct cultural change and consequently build up a developmental state. This chapter particularly focuses on the defining characteristics of a developmental state. In addition to the three characteristics recognized in the literature (relative autonomy, capacity, and embeddedness), four others are identified which are essential for a state to become developmental and remain so. These are: legitimacy of the state, integration of the society, socio-political stability, and motivation for economic development. The Korean developmental state is taken as a case study and investigated under this new light.

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Economic development resembles a Poker game in some respects. It is possible that you may develop rapidly even with the bad cards at hand, if you manage to learn how to play with them.

1. INTRODUCTION¹

The respective roles of the state and the market in the development process have been a constant issue of debate particularly after the great depression of 1929 which showed clearly that the price was too high when the market was left to the realm of the 'invisible hand'. The consequence was that the predominant approach to economic policy in the 1950s and 1960s assigned the state a substantial role in repairing market failures. However, the forces of orthodoxy regrouped and by the second half of the 1970s, if not earlier, the mainstream of thinking about development policy had decisively shifted towards a neoclassical view of 'the appropriate' roles of markets and states. There has been a downgrading of the state in both popular media and academic literature for more than three decades. The end result is that there is considerable scepticism about the importance of states on economy all over the world today. The premise of the currently dominant economic view, neoliberalism (or market fundamentalism), is that markets, not states, are the most suitable way to organize political-economic systems. State interventions, as Jomo and Gomez (2000, p. 274) clarify, 'are said to have created economic rents, thus encouraging wasteful rent-seeking activity (often involving corruption) and other inefficient economic conduct'.

However, the truth of the matter is quite different. As Wade (2007, p. 310) stresses, '[N]ational business needs the state to help boost its competitiveness in the face of established producers elsewhere'. To achieve high growth rate, there should be high return sectors. But such sectors, in general, have no relationship with developing countries. If a developing country does not possess those sectors but wishes to catch up with advanced countries, it is left with no choice but to enter those high return sectors. In other words, such a country must deny extant hierarchy of comparative advantage and transform

the present economy to build up new comparative advantages. The developmental state model, put forward by several studies, was based on approaches and public policies that have proven successful in Northeast Asian countries. Several scholars have documented that one of the main reasons behind rapid economic transformation of Japan, South Korea, and Taiwan (and more recently China) has been the well-directed pro-active intervention of the state in the industry. These high-performing economies did not for the most part rely on free trade during the period of their rapid growth. Instead, the success of these economies was based on effective intervention of 'developmental states' in these countries. The beneficial role of state interventions in the East Asian context has been so obvious that even the World Bank, one of the prominent advocates of the neoliberal view, was obliged to admit this by releasing a book named *The East Asian Miracle*. The East Asian model preserved its attractiveness despite the fact that some East Asian countries found themselves during 1997 – 1998 in one of the worst financial and economic crises ever. For some, this period was the end result of developmental states which brought about corruption and moral hazard.² However, history proved this interpretation was very much biased. What happened was, indeed, just a short interruption rather than a watershed trend-break in East Asian economic development.

A developmental state is the most likely candidate for boosting an economy beyond the narrow logic of private investment and thereby improving its position in the international division of labour. Such states achieve their goals not by taking on the tasks of development themselves, but also by shaping the capabilities of society and the market to do so. From the starting position that it is the developmental state which is best positioned to coordinate and prioritise rapid economic development, this chapter focuses on the underlying dynamics of such states and the complexities underpinning their emergence and durability. In doing so, the goal is to discover the circumstances under which a state can effectively promote rapid economic development.

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