ENCOUNTERS WITH NEOLIBERAL GLOBALIZATION:

SOUTH KOREA AND TURKEY IN COMPARATIVE PERSPECTIVE

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2021

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Thesis submitted to the

Institute for Graduate Studies in Social Sciences

in partial fulfillment of the requirement for the degree of

Doctor of Philosophy

in

Political Science and International Relations

by

Thergill Kim

Boğaziçi University

2021

DECLARATION OF ORIGINALITY

I, Thergill Kim, certify that

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ABSTRACT

Encounters With Neoliberal Globalization:

South Korea and Turkey in Comparative Perspective

Despite being on different development paths, South Korea and Turkey faced economic crises triggered by external shocks and unsustainable industrial policies in the late 1970s. The economic policies of both countries started to converge into neoliberalism around 1980, under international financial institutions and military regimes; however, neoliberal transformation varied in the two countries over time. This thesis investigates why such divergence occurred, even though both countries launched similar neoliberal programs at the same time.

This thesis aims to examine economic policymaking and to compare the interaction among political leaders, economic policymakers, and business circles of the two countries in the 1980s and early 1990s. Through comparative historical analysis, it draws from the development state literature and reframes the discussion by focusing on how pre-crisis conditions were worse for Turkey than for South Korea and how South Korea's state capacity was different from Turkey's during its neoliberal transformation. The neoliberal reforms continued in both countries after a full-scale democratization in 1987. Nevertheless, more than a decade of neoliberalization remained incomplete by the early 1990s, and South Korea and Turkey tended to regress to pre-reform development paths, handing these heavy tasks over to the next governments.

In conclusion, this thesis asserts the importance of state capacity in neoliberal reforms and finds the changeability of the developmental state and its internal political-institutional dynamics through Korea's case. Additionally, it

examines the domestic and international factors that influenced state capacity and defines the limitations in the analysis of neoliberalization based on the developmental state theory.

ÖZET

Neoliberal Küreselleşme Sürecinde Güney Kore ve Türkiye:
Karşılaştırmalı bir Analiz

Farklı kalkınma yollarında olmasına rağmen, Güney Kore ve Türkiye, 1970'lerin sonlarında dış şoklar ve sürdürülemez sanayi politikaları tarafından tetiklenen ekonomik krizle karşı karşıya kaldılar. 1980 civarında, her iki ülkenin ekonomi politikaları, uluslararası finans kurumları ve askeri rejimler altında neoliberalizme yakınlaşmaya başladı; ancak, neoliberal dönüşüm iki ülkede zaman içinde farklılık gösterdi. Bu çalışmada, her iki ülkenin aynı anda benzer neoliberal programlar başlatmasına rağmen, bu türden bir ayrışmanın neden gerçekleştiği incelenmiştir.

Bu tez, iki ülkenin 1980'lerde ve 1990'ların başında aldığı ekonomik politika kararlarını incelemekle birlikte siyasi liderler, ekonomik politika yapıcılar ve iş dünyası arasındaki etkileşimi karşılaştırmayı amaçlamaktadır. Karşılaştırmalı tarihsel analizin yapıldığı bu çalışmada kalkınmacı devlet literatürü aracılığıyla kriz öncesi koşulların Türkiye için Güney Kore'den daha kötü olduğuna ve neoliberal dönüşüm döneminde Güney Kore'nin devlet kapasitesinin Türkiye'nin devlet kapasitesinden daha üstün olduğuna odaklanarak, tartışma yeniden yapılandırılmaktadır. 1987'de tam ölçekli demokratikleşmeden sonra bile iki ülkede neoliberal reformlar devam etmiştir. Bununla birlikte, 1990'ların başına gelindiğinde, neoliberalleşme on yılı aşkın bir süredir eksik kalmıştır, ve Güney Kore ile Türkiye neoliberal küreselleşmenin zor görevlerini sonraki hükümetlere devrederek sırasıyla reform öncesi gelişme yollarına geri dönmüşlerdir.

Sonuç olarak bu çalışmada, neoliberal reformlardaki devlet kapasitesinin önemini savunulmasının yanında Kore örneğiyle kalkınmacı devletinin değişkenliği ve onun iç politik-kurumsal dinamikleri ortaya konulmuştur. Ayrıca, bu çalışmada,

devlet kapasitesini etkileyen yerel ve uluslararası faktörler incelenmekte ve kalkınmacı devlet teorisine dayanan neoliberalizasyonun analizindeki sınırlamaları tanımlanmaktadır.

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ACKNOWLEDGEMENTS

It was not an easy decision for me to go to Turkey for my studies, and I had to overcome many difficulties in order to finish this thesis. Nevertheless, thanks to the guidance of many people, I was able to complete it. First, I would like to express my deepest gratitude to my thesis advisor, Professor Mine Eder. It would not have been possible for me to study at Boğaziçi University and to write this thesis without her supervision and support. I would also like to thank Professor Yeşim Arat and Professor Ziya Öniş, who were my advisors and whose guidance and suggestions further improved this thesis. Again, it was a great honor for me to be taught by world-class professors, and I would like to express my deepest respect and gratitude to all of them. In addition, I appreciate the comments and contribution of Associate Professor Zeynep Kadirbeyoğlu and Professor Pınar Uyan Semerci in the thesis defense.

Second, I want to thank to my great motherland, the Republic of Korea, for selecting me as a government scholarship student and providing me with the opportunity to study abroad. I would also like to thank teacher Lee Hwa Cheon for helping me in Turkey. Third, I particularly appreciate my family for encouraging me from Seoul. Lastly, South Korea shed a lot of blood, sweat, and tears in its miraculous leap from being one of the poorest countries decades ago to becoming an economic power in the world. Through this thesis, I convey my gratitude to all those who played part in South Korea's economic development.

To my mother, my mother’s mother, and my motherland

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ABBREVIATIONS

CMES	Comprehensive Measures for Economic Stability
DPMMEPB	Deputy Prime Minister and Minister of the Economic Planning Board
EBF	Extra-Budgetary Fund
EPB	Economic Planning Board
DP	Democrat Party
DS	Developmental State
EOI	Export-Oriented Industrialization
FKI	Federation of Korean Industries
FTC	Foreign Trade Company
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
HCI	Heavy and Chemical Industry
IDL	Industrial Development Law
IFIs	International Financial Institutions
ISI	Import Substitution Industrialization
JP	Justice Party
KDI	Korea Development Institute
MCI	Ministry of Commerce and Industry
MF	Ministry of Finance
MHPPF	Mass Housing and Public Participation Fund
MP	Motherland Party
NSC	National Security Council

OECD	Organization for Economic Cooperation and Development
RPP	Republican People's Party
SAL	Structural Adjustment Loan
SBA	Stand-By Arrangement
SDR	Special Drawing Rights
SEEs	State Economic Enterprises
SOBs	State-Owned Banks
SPO	State Planning Organization
SPSEA	Senior Presidential Secretary for Economic Affairs
TOBB	Turkish acronym for Union of Chambers of Commerce and Commodity Exchanges of Turkey
TÜSİAD	Turkish acronym for Turkish Industrialists' and Businessmen's Association
US	United States
UTFT	Undersecretariat of Treasury and Foreign Trade

NOTES ON SPELLING AND TRANSLITERATION

In this thesis, the romanization of the Korean language follows the most widely used McCune–Reischauer system. However, this thesis writes proper nouns such as chaebol, company names, place names, and Korean person names as customary. Particularly, in the transliteration of Korean names, surnames come before given names. In the cases of Chang Myon, Park Chung Hee, and Kim Jae-ik, Chang, Park, and Kim are the surnames, and Myon, Chung Hee, and Jae-ik are the given names. Among Koreans in this thesis, Syngman Rhee is the only exception, in that his given name, Syngman, comes before his surname, Rhee, in Western style.

In the case of Korean presidents' names, this thesis writes only Syngman Rhee's surname after mentioning his full name at first and marks only the surnames of Park Chung Hee, Chun Doo Hwan, and Roh Tae Woo after mentioning their full names a few times. The remaining Korean names are written as full names. In the case of Turkish names, this thesis initially reports the full names and then only the surnames, except for Kenan Evren and Turgut Özal, whose full names are written the first few times. In the case of Turgut Özal's son and brother, their full names are written at first; then, only their given names are used.

CHAPTER 1

INTRODUCTION

On December 20, 1982, Turkish President Kenan Evren arrived at Gimpo Airport, near Seoul, for the first time as Turkey's head of state[1] and was welcomed by South Korean President Chun Doo Hwan. The next day, at a dinner in honor of the Turkish President, Chun Doo Hwan delivered a congratulatory speech:

> I am profoundly impressed by the illustrious achievements of the Republic of Turkey in all aspects of nation-building under your eminent leadership since the September Revolution in 1980. I pay the highest tribute to your outstanding leadership and statecraft in bringing about the stability and progress of Turkey that we witness today. (Chun, 1983, p. 159)

This speech was not only a compliment to Kenan Evren but also a statement to justify Chun Doo Hwan's rule. A surprising coincidence relates these two men: Chun Doo Hwan seized power through two-phase military coups on December 12, 1979 and May 17, 1980, and Kenan Evren did the same on September 12, 1980. Then, they both became strong general-turned-presidents of the seven-year term by way of constitutional amendments in October 1980 and November 1982, respectively. Most of all, unfledged neoliberalism gained momentum with their military coups, which was a crucial turning point of the economies in both South Korea (hereafter Korea) and Turkey.

This thesis seeks to comparatively analyze the process of neoliberal transformation of Korea and Turkey in the 1980s and early 1990s. Among late

[1] As a soldier, Kenan Evren had participated in the Korean War and served in Korea as a Turkish brigade from 1958 to 1959.

developing countries that suffered from economic crises and responded to them in the late 1970s and early 1980s, Korea and Turkey were exemplary cases of overcoming economic crises through economic reforms in the 1980s (Collins, 1989; Haggard & Kaufman, 1992; Michalopoulos, 1987). This contrasts with the lost decade of Latin America and the failure of sub-Sahara African countries, whose national income could not reach the level of 1980 even in the late years of that decade. Before studying what happened to the economies of Korea and Turkey in the 1980s, it is necessary to investigate the changes in the global economy in the 1970s.

Under the Bretton Woods[2] and the General Agreement on Tariffs and Trade (GATT)[3] systems, the world economy had steadily grown since World War II. Starting in the late 1960s, however, the economy of the United States (US) suffered from trade and fiscal deficits owing to the expenditures of the Vietnam War. On August 15, 1971, the Nixon administration undermined the Bretton Woods system by suspending the direct convertibility of the US dollar to gold and enfeebled the GATT system by imposing a 10% surcharge on imports (Moon & Rhyu, 2010, p. 445; United Nations, 2017, p. 53). As a result, free trade declined, and the Bretton Woods system collapsed. What is worse, the first oil shock produced unprecedented global stagflation, bringing forth issues of economic adjustment and industrial competitiveness in developed countries (Ikenberry, 1986, p. 105). As trade protectionism in developed countries was strengthened, competition among developing ones was fierce.

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[2] The Bretton Woods system was born by an international monetary system agreement at the United Nations Monetary and Financial Conference held in Bretton Woods, United States in 1944, just before the end of World War II.
[3] The GATT, one of the results of the Bretton Woods Conference, was launched in 1944 to eliminate trade barriers such as tariffs and import and export regulations through multilateral negotiations.

Keynesianism,[4] which had dominated the economic order since World War II, lost validity for tackling problems of declining growth, rising unemployment, and high rates of inflation (United Nations, 2017, p. 54). Instead, the international financial institutions (IFIs) started to apply neoliberalism to developed countries and the Third World. Based on neoclassical economics, neoliberal ideology was embodied in IFIs' orthodox reforms. These reforms were aimed at "avoiding overvalued exchange rates, reducing public spending commitments, having an open trading and payments regime that encouraged optimal use of investment resources" (Peet, 2003, p. 124). Although, theoretically, these reforms promote global convergence on neoliberalism, they have varied by country over time (Rodrik, 1996, p. 10).

Korea and Turkey can be good cases for a comparative study on the convergence and divergence of the post-1980 neoliberalization. First, the two countries share similarities for comparison. Korea and Turkey were oil-importing, middle-income, capitalist countries vulnerable to external shocks. They faced economic crises and launched stabilization measures earlier than other developing countries. Moreover, both went through military coups, resumed neoliberal policies under pro-American rightist governments around the same time, and then experienced complete democratization in 1987 after economic liberalization. Nevertheless, as shown in the Word Bank's statistics in Figure 1, for a decade of neoliberal transformation, Korea's Gross Domestic Product (GDP) per capita was \$6,516 in 1990 and \$7,523 in 1991. However, Turkey's GDP per capita was \$2,794

[4] In Keynesianism, governments must increase demand to grow the economy. Thus, Keynesianism regards consumer demand as the first element of the economy and uses government fiscal spending as a means.

in 1990 and $2,736 in 1991, even though Turkey's GDP per capita was higher than Korea's GDP per capita before 1980.

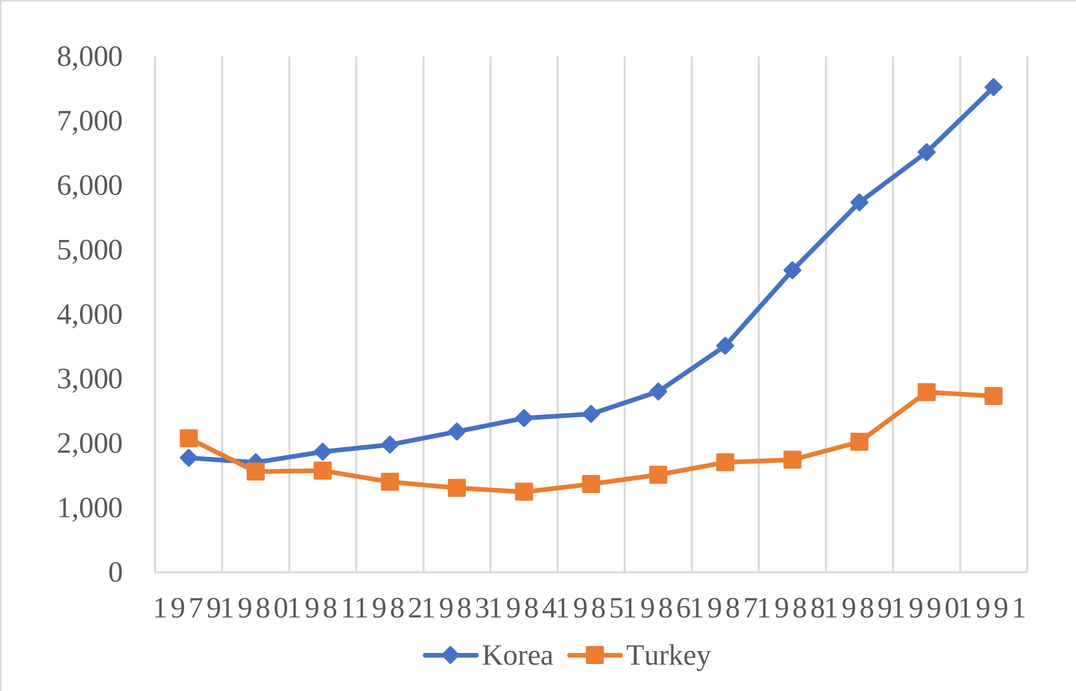

Figure 1. GDP per capita of Korea and Turkey, 1979–1991 ($)
Note: Adapted from World Bank Data, by World Bank, n.d. (https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=1991&locations=KR-TR&start=1979).

This implicates that, even though Korea and Turkey accepted and pursued similar neoliberal programs around the same time, there was a significant difference in performance between the two in the 1980s. Specifically, Korea paved the way for its transformation into an industrial nation exporting high-tech goods through rapid industrial restructuring, while Turkey remained at a low level of technology-dependency on the textile and clothing industries in spite of the increase in exports and GDP (Taymaz & Voyvoda, 2012). The 1980s was, on the one hand, the decade when Korea and Turkey, which had held contrasting economic development strategies until 1979, took a converging direction toward neoliberal globalization; on the other hand, it was the period when Korea and Turkey, which had been on similar economic levels around 1980, started to show a difference in national income and industrial sophistication. Given the differences between Korea and Turkey in the 1980s and early 1990s, this thesis poses the following question:

> What accounts for the divergence between Korea and Turkey during the neoliberal globalization throughout the 1980s, even though both countries contemporaneously launched similar orthodox reforms amid political and economic crises?

1.1 Hypotheses

To explain the divergence between Korea and Turkey in the 1980s and beyond, this thesis hypothesizes that (1) variations in pre-crisis conditions and (2) state capacity created differences in neoliberal convergence between the two countries.

Firstly, it is necessary to focus on economic situations before the crises in the late 1970s because "the post-crisis reform starts when the pre-crisis reform stopped" (K. Lee, B.-K. Kim, C. H. Lee, & J. Yee, 2005, p. 4). Pre-crisis economic conditions include "1) the macroeconomic situation, 2) the type and size of external shocks, and 3) the degree of structural distortion of the pre-reform economy" (Pei, 1995, p. 118). In the late 1970s, skyrocketing oil prices caused the external shocks, the international trade went into a slump, and high real interest rates hit the world. Debt-ridden developing countries were compelled to accept a shift "from state-led, inward-oriented models of growth toward the emphasis on the market, private ownership, and greater openness to trade and foreign investment" (Haggard & Kaufman, 1995, p. 3).

Korea and Turkey suffered similar economic crises and political turmoil around 1980. However, the pre-crisis conditions of Korea and Turkey were not identical because of the legacies of previous economic development strategies. In Korea, the side effects of growth-first export-oriented industrialization (EOI) arose in 1978 after the first oil shock. Moreover, with the second oil shock, Korea's terms of trade worsened, exports decreased dramatically, and the current account deteriorated. With the rise in interest rates, industrial deepening in the 1970s relying on foreign loans and oil imports increased the debt service burden. Although the Korean government announced stabilization measures in April 1979, the assassination of President Park Chung Hee in October 1979 and the ensuing unfavorable economic factors cast a bleak outlook on the Korean economy (Clifford, 1994, pp. 131–137; Collins & Park, 1988, pp. 6–10; Haggard, 1994a, pp. 56–67; Haggard & Moon, 1990, pp. 216–220).

In Turkey, the economic crisis occurred in 1977 after the first oil shock. Decades of import substitution industrialization (ISI) characterized by protectionism, fiscal profligacy, and foreign borrowing were unsustainable; particularly, the Turkish government's guarantee of exchange risk to attract capital inflows depleted foreign exchange reserves and worsened the current account. As a result, Turkey struggled to repay foreign debt and could not serve foreign obligations (I. S. Friedman, 1981, p. 259; Seiber, 1982, p. 72). Although Turkey rescheduled its debt with the IFIs and foreign creditors and declared stabilization measures in January 1980, the measures could not be implemented properly amid political and social chaos (Aricanli & Rodrik, 1990, p. 1344; Celâsun & Rodrik, 1989b, pp. 196–198; Collins, 1989, pp. 5–6; Öniş, 1992, p. 74; Öniş & Webb, 1992, p. 4; Pamuk, 2008, p. 286). Taking this situation into account, this thesis proposes a first hypothesis to clarify the divergence in neoliberal convergence between Korea and Turkey in the 1980s:

> H1: In the late 1970s, pre-crisis conditions, which would be the starting point for neoliberal reforms around 1980, were worse for Turkey than for Korea. Subsequently, this led to the neoliberal divergence between the two countries in the 1980s and onward.

Developing countries, including Korea and Turkey, received neoliberal prescriptions by the IFIs to overcome their economic crises. However, international support does not necessarily assure the success of the reforms as recipient governments are placed in "tension between global standard and local specificity" (K. Lee et al., 2005, p. 2). Thus, their success depends on whether local governments are strong enough to have a high capacity created by institutional arrangements (Weiss, 1998, p. x). In other words, the variances in state capacity when executing international policy guidelines generate mixed results with regard to the reforms. As a criterion of state capacity and as the main body for formulating and implementing policies, bureaucracy is critical. Thus, accepting global standards, a Weberian bureaucracy[5] with autonomy is a necessary condition for successful economic reforms (Haggard & Kaufman, 1992, p. 26). However, it is not enough for the state alone to complete the reform; as another component of state capacity, the state must adopt a cooperative system with the private sector, especially businesses, to consolidate economic reforms in the long run (Haggard & Kaufman, 1995, p. 10; Öniş, 1991b, p. 111; Öniş & Webb, 1992, pp. 49–50). Therefore, this thesis presents the second hypothesis as follows:

> H2: Korea's state capacity elicited by the triangular relationship among political leaders, economic policymakers, and businessmen was better coordinated than Turkey's during the neoliberal

[5] Weberian bureaucracy features "highly selective, meritocratic recruitment patterns and long-term career rewards, which enhance the solidarity and the corporate identity of the bureaucratic elite" (Öniş, 1991b, p. 124).

transformation of the 1980s. This gave rise to the difference in neoliberal globalization between the two countries in the aftermath of the 1980s.

1.2 Research design

This thesis is the first that historically analyzes the neoliberal globalization of Korea and Turkey one-on-one in the 1980s and early 1990s from a comparative perspective. It seeks to prove the hypotheses and provide future researchers with a base to propose new theories. To do so, this thesis uses Mill's method of difference (Mill, 1882, pp. 281–283) to test the hypotheses by employing a comparative historical approach through macro-causal analysis. According to Skocpol and Somers (1980), the method of difference means "to contrast cases in which the phenomenon to be explained and the hypothesized causes are present to other ('negative') cases in which the phenomenon and the causes are both absent" (p. 183). Utilizing this method, this thesis finds the divergence within the convergence through the cases of neoliberal reforms in Korea and Turkey, which were similar at first but went to different ends through the 1980s. This thesis focuses more on domestic relations among political leaders, technocrats, and big businesses of Korea and Turkey than on the external factors; further, it investigates the shifts in policy of each country vis-à-vis domestic and international pressures diachronically.

Through the comparative historical approach based on cross-national case studies rather than quantitative ones, this thesis utilizes primary and secondary literature concerning political-institutional backgrounds, political and economic crises, economic policymakers, and economic policies of Korea and Turkey between the late 1970s and early 1990s. This involves the documents on state apparatuses, such as Turkey's State Planning Organization, Undersecretariat for Treasury and

Foreign Trade, Central Bank, and Prime Minister's Office as well as Korea's Economic Planning Board, Presidential Secretariat, Korea Development Institute, and so on. This thesis also uses the publications and data of the IFIs, such as the IMF and the World Bank.

In addition, it explores the memoirs of then political leaders and technocrats who participated in economic policymaking and policy decisions, the newspapers and magazines vividly reporting the situation at the time, and the records proving the state's relationships with the business community, such as those of the Federation of Korean Industries and the Turkish Industrialists' and Businessmen's Association. Moreover, this thesis conducts a semi-structured interview with Korea's former government official who worked in an economic ministry on bureaucratic life, to examine the policymaking processes, inter-ministerial relations, and relationships with political and economic actors. This semi-structured interview ensures that the interviewee can talk about the stories as much as possible.

The focus of this thesis is only on economic policies rather than any of the other numerous policies executed in the 1980s and early 1990s. This thesis observes political leaders, technocrats, politicians, and big businessmen at the domestic level. The timeframe studied is limited to the period from the postwar economic policies of the two republics in the 1950s and 1960s through the economic crises in the late 1970s and their gradual neoliberalization in the 1980s to the early 1990s, when neoliberalism waned amid controversy over Korea's total crisis, and the most market-friendly government declined in Turkey. Hereafter, this thesis is outlined as follows.

Chapter 3 investigates the postwar political economy of Korea and Turkey up to the 1970s. It explores the characteristics of the two countries' bureaucracy in the 1950s and 1960s, the degree of public-private cooperation, and the differences in economic development strategies. In the 1970s, Korea’s excessive investment in heavy and chemical industries and Turkey’s unsustainable import substitution industrialization (ISI) are analyzed as the main causes of economic crises combined with international unfavorable factors. Then, it delves into how stabilization measures were introduced to Korea and Turkey before the coups in 1979 and 1980, respectively, and what significance and limitation the measures had.

Chapter 4 focuses on the economic stabilization and liberalization in the early 1980s, dealing with the financial and technical assistance of the IFIs, new economic architects, and their economic policies. Centering on the relationship among political elites, the bureaucracy, and the business community, it examines how new technocrats were appointed to the policymaking positions in the post-coup governments, under what conditions they formulated and implemented neoliberal reforms against traditional bureaucrats, and what their policies were. Specifically, Kim Jae-ik of Korea and Turgut Özal of Turkey are spotlighted as neoliberal reformers. As to the state-business relations of Korea and Turkey, it investigates to what extent both governments embraced or excluded the business community and other interest groups.

Chapter 5 treats the divergence of neoliberal reforms in Korea and Turkey from the mid-1980s to late 1987. With regard to the differences in policy priorities in the mid-1980s, the contrasting institutional settings made the two countries take separate paths toward neoliberal transformation up to 1987. The chapter analyzes Korea’s legislative competition among economic ministries toward private-led economy, the establishment of public-private partnership in the industrial sector, and the collusion between politicians and big businesses from the mid-1980s to the end of 1987. Furthermore, with regard to Turkey, it investigates the rise of young technocrats from abroad, their impact on the entire bureaucracy, and the uneasy relations between Turgut Özal's market-oriented government and big businesses.

Chapter 6 addresses how neoliberal reforms that had begun around 1980 in Korea and Turkey proceeded and withered and scrutinizes the varying relationship among political leaders, economic policymakers, political elites, and big businessmen from 1988 to the early 1990s. With regard to Korea, it analyzes the alteration of economic policies as well as big businesses and their reactions to the state's intervention. As for Turkey, the chapter studies its privatization and economic instability under Turgut Özal's second term and the intensified confrontation between the government and the young generation of big businesses.

Chapter 7 proves the first hypothesis through statistical data and remarks of major economic figures at the time and verifies the second hypothesis on the basis of state capacity derived from a trilateral relationship between political leaders, economic policymakers, and businessmen. By demonstrating the two hypotheses, this thesis explains the factors that created the divergence between the two countries since the 1980s.

Chapter 8 evaluates Korea's and Turkey's state capacity from the 1950s to the early 1990s and asserts the importance of state capacity in neoliberal reforms. Last, unlike the existing literature on the developmental state, this thesis finds the changeability in the developmental state and its internal political-institutional dynamics from the Korean case. In addition, it examines the domestic and international factors that affected state capacity and defines the limitations in the analysis of neoliberalization based on developmental state theory.

CHAPTER 2

THEORETICAL FRAMEWORK

2.1 Literature review

Much of the literature focuses on the influence of international factors on domestic policies. Gourevitch (1986) examined why and how some countries adopted particular economic policy programs in response to large crises in the international economy. The international political economy generates pressure, constraints, or opportunities for domestic policy choice. In the time of crisis, one country's policy choice is influenced by its position in the international system and domestic coalition-building for economic interests derived from changes in the world economy (pp. 35–68). According to Babb (2001), foreign capital and the IFIs controlled national economic policies since the emergence of the globalized financial system in the 1960s and the ideological defeat of Keynesianism (pp. 2–6).

After the second oil shock in late 1970s, the tightening of monetary policy and protectionism in the US and other advanced countries caused a global recession. This dealt a severe blow to developing countries dependent on the foreign debt and markets of developed countries (Nelson, 1990, p. 6). The IFIs urged developing countries to adopt the orthodox reforms (Peet, 2003, p. 124), whereby the economic policies of developing countries converged into a set of principles of neoliberalism, later called the *Washington Consensus*. Stallings (1992) argued that the policy choices of developing countries were constrained and narrowed down by market shifts in goods and finance, by the linkage between domestic groups and international actors, and by leverage like reward or punishment (pp. 48–58). Korea and Turkey—the cases covered in this thesis—were no exception to this irresistible neoliberal wave. Despite various definitions, neoliberalism refers to

> a heterogeneous set of institutions consisting of various ideas, social and economic policies, and ways of organizing political and economic activity. . . . Ideally, it includes *formal institutions,* such as minimalist welfare-state, taxation, and business regulation programs; flexible labor markets and decentralized capital-labor relations unencumbered by strong unions and collective bargaining; and the absence of barriers to international capital mobility. It includes institutionalized *normative principles* favoring free-market solutions to economic problems, rather than bargaining or indicative planning, and a dedication to controlling inflation even at the expense of full employment. It includes institutionalized *cognitive principles*, notably a deep, taken-for-granted belief in neoclassical economics. (Campbell & Pedersen, 2001, p. 5)

In principle, the state's role must be limited and decentralized as much as possible to promote the freedom of private individual actors in a competitive free market (M. Friedman, 1982, pp. 2–4). Neoliberalism is materialized through the IFIs' policy prescription and divided into two parts: short-term stabilization and long-term structural adjustment. The former aims at

> reducing balance of payments deficits and inflation to levels compatible with resumed and sustainable growth. The core of conventional short-run stabilization efforts is reduction of aggregate demand . . . through fiscal and monetary measures often accompanied by devaluation. Stabilization programs normally aim at relatively quick results, typically within one or two years. (Nelson, 1990, pp. 3–4)

The latter designs for "rationalizing the allocation of resources and strengthening the export sector. . . . [T]he process of adjustment has been equated with measures such as the reduction of tariffs, the deregulation of financial markets, and the privatization of state-owned enterprises" (Haggard & Kaufman, 1992, p. 5). Structural adjustment takes longer than stabilization programs because it is planned for at least three years or more (Nelson, 1990, p. 4).

On the spread of neoliberal policies across developing countries, Weyland (2009) claimed that neoliberal diffusion spreads convergence amid divergence (pp. 1–29). Despite some modifications to adapt the imported policy to local needs, many developing countries follow similar reformative policy programs from abroad under dissimilar backgrounds. These phenomena are explained by the related concepts of policy diffusion, policy transfer, and policy convergence (Dobbin, Simmons, & Garrett, 2007; Gilardi, 2012; Graham, Shipan, & Volden, 2013; Weyland, 2009). However, these studies center on the unilaterality of international pressure vis-à-vis recipient countries. In the late 1970s and early 1980s, the responses of developing countries to economic crises show the broad diversity ranging from the most orthodox reform in Chile to heterodox shock programs in Israel, Brazil, Argentina (Nelson, 1990, p. 49), and Peru (Rodrik, 1996, p. 22; Stallings, 1992, pp. 62–64).

Most literature on comparative political economy examines the nature of crises, the timing of neoliberal policy initiation, the degree of policy orthodoxy, and the extent of consolidation of reforms (Bates & Krueger, 1993; Haggard & Kaufman, 1992, 1995; Nelson, 1990). In the cases of Korea and Turkey, Korea's economic crisis in the late 1970s was provoked by a combination of excessive industrial investment and external shocks (Haggard & Moon, 1990, p. 216; K.-J. Park, 2017, pp. 54–99). Korea resolved the economic crisis through the stabilization and adjustment programs prescribed by the IFIs (Aghevli & Márquez-Ruarte, 1985) and is frequently contrasted with other developing countries experiencing severe debt crises (Collins & Park, 1988; Haggard & Kaufman, 1995; Haggard & Moon, 1990; Moon, 1988; Shafer, 1990). Especially, the superiority of the EOI that Korea had chosen is underlined as a solution to the economic crisis (Sachs & Williamson, 1985;

Haggard, Cooper, & Collins, 1994, pp. 3–19).

Turkey's economic crisis started in 1977 owing to the distortion of the last two decades of ISI and wrong foreign exchange policy (Celâsun & Rodrik, 1989b, pp. 196–198; Collins, 1989, pp. 5–6). Likewise, Turkey overcame the economic crisis by undertaking stabilization and structural adjustments toward export promotion in the post-1980 era (Aricanli & Rodrik, 1990, pp. 1344–1349; Celâsun & Rodrik, 1989a, pp. 662–696; Öniş, 1992; Öniş & Webb, 1992).

In the literature, Korea and Turkey are categorized as role models of overcoming economic crises by implementing similar orthodox reforms under the support of the IFIs such as Stand-By Arrangement (SBA)[6] of the IMF and Structural Adjustment Loan (SAL)[7] of the World Bank. These market-centered and neoclassical approaches to economic development and orthodox reforms are so dichotomous that they equate import liberalization and EOI with a free-market economy and assume protectionism and ISI as anti-reform (Krueger, 1987). For them, orthodox policies in Korea and Turkey reflect the inevitable tide of neoliberalism, and institutional settings in the early stages of orthodox reforms are regarded as pre-given.

For the comparative analysis of cases in Korea and Turkey, however, further studies ought to concentrate on the mechanisms of policymaking and examine the relationship between the state and non-state actors. This is because, after all, policies are determined by a process in which policymakers seek selectable alternatives

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[6] SBA is an emergency funding that the IMF agrees to provide to its member countries suffering from worsening short-term international balance of payments. In return, recipient countries should follow the IMF's stabilization programs.

[7] SAL is a loan provided by the World Bank on the condition that the recipient countries implement structural adjustment programs.

through interaction with various actors vis-à-vis domestic and international pressures. Thus, the response to neoliberal globalization is not uniform, but it relies on each country's political and institutional arrangements—products of historical experience and accumulation. In this sense, the institutionalist approach is more appropriate than any other for a comparative political economy. It argues that the differences in the institutions result in those of economic performance in many countries (Acemoglu, Johnson, & Robinson, 2005; Banerjee & Iyer, 2005; Engerman & Sokoloff, 2008; Hall & Soskice, 2001; Landes, 2006; Mahoney, 2001). This approach concentrates on endogenous institutions and coalitions, thereby dealing with the cases of developing countries multifacetedly and better comprehending their differences (Eder, 1993, p. 12).

In theory, neoliberal globalization limits the role of the state in that it puts the market first and integrates the domestic economy into global capitalism. However, in reality, the state and the market do not conflict with each other as the state—and especially its intervention—is indispensable as an agent that establishes and runs the market. Polanyi (1957) underscored that "the road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism" (p. 140). Even Friedman, a great authority on neoliberalism, did not deny the role of the government in a free market:

> The existence of a free market does not of course eliminate the need for government. On the contrary, government is essential both as a forum for determining the "rules of the game" and as an umpire to interpret and enforce the rules decided on. (M. Friedman, 1982, p. 15)

Thus, the state is critical, even in market-oriented reforms. In particular, the expertise in the state bureaucracy is a "necessary prerequisite to the operation of the market"

(Evans, 1992, pp. 140–141); even if market-oriented reforms are implemented, they centralize state power instead of retreating the state (Buğra, 1994, pp. 143–144; Öniş, 1998, p. 28). The British case under the Thatcher administration demonstrates this paradox of neoliberalization (Gamble, 1988).

In the literature, the state is instrumental to explain economic policies. Depending on state power, states are divided into strong or weak ones in terms of economic policy and domestic and foreign factors (Öniş, 1998, p. 478). The notion of state power over society is elaborated and divided into state autonomy and state capacity in accordance with specific social and historical conditions (Evans, Rueschemeyer, & Skocpol, 1985). The former refers to the extent to which the state can formulate policies regardless of the pressure of society, while the latter is the degree to which that the state can implement policies over the opposition or against resistant socioeconomic environments (Skocpol, 1985, p. 9). As in industrialization, therefore, state capacity is a necessary condition for trade liberalization, privatization, cutting back on protection and subsidies, and fiscal discipline.

This state-centered approach is embodied in the developmental state (DS) theory (Evans, 1992, p. 176; Johnson, 1987) or governed market theory (Wade, 1990), which explains the economic achievements of Japan, Korea, and Taiwan. Such state-centered approach notes strong bureaucratic institutions as its key components (Öniş, 1998, p. 479). The bureaucracy of the DS refers to

> a professional, disciplined, and cohesive public bureaucracy that is able to implement the government's economic policies impartially. Such a bureaucracy is honest, meritocratic, and bound together by a well-developed esprit de corps. It uses a strongly developed corporate identity to promote standards of excellence and prevent clientelism within its ranks. It is this type of bureaucracy that provides the state with its capacity to get things done. (van de Walle, 1995, p. 157)

Although high levels of state autonomy and state capacity of the DSs explain outstanding economic performance (Amsden, 1989; Evans, 1992, 1995; Johnson, 1982; Öniş, 1991b; Wade, 1990), this state-centered approach ignores the changes of the state power over time and the increasing role of the private sector in the economy. In line with this approach, previous studies highlighted the weakness of Turkey's institutional arrangements and the path dependence of the past institutional structure as restricting the productive outcome of economic policies (Batur, 1998; Milor, 1989; Öniş & Webb, 1992; Sayarı, 1992; Ünay, 2006).

Taking a further step from the state-centered approach, Evans (1995) suggested the concept of embedded autonomy to emphasize the connection between the state and society—especially the business in charge of economic activities. According to the embedded economy, the state should be insulated from socioeconomic interests to formulate consistent policies and simultaneously to collaborate with the peak interest associations of capitalists to fulfill long-term economic policies. Therefore, state apparatuses must institutionalize its cooperative linkage with the private sector to consolidate economic policies in the long run (Evans, 1995; Haggard & Kaufman, 1992; Öniş, 1991b; Öniş & Webb, 1992; Weiss & Thurbon, 2016). As the epitome of embedded autonomy, East Asian DSs incorporated the business into economic policymaking through institutionalized networks, cracking down on organized labor, leftists, and popular groups. The DS's state-business relations contributed to better economic performance (Amsden, 1989; Evans, 1995; Johnson, 1982; Schneider & Maxfield, 1997).

Johnson investigated the friction between the Ministry of International Trade and Industry, a pilot agency, and the Ministry of the Treasury controlling budgets, factions within the Ministry of International Trade and Industry, and conflicts with politicians (Johnson, 1982). Nevertheless, the literature on the DS does not sufficiently explicate the policymaking process within the DS and tends to overstate the autonomy and coordination ability of the pilot agency, considering the state as a single entity with high cohesion. Thus, it is necessary to clarify conflict, competition, and cooperation among various actors of the DS, including state organizations, political elites, and private sectors. Korea's DS went through struggle, clash, and factionalism among government ministries; it also faced challenges from the conglomerates that opposed the government-controlled economy after the mid-1980s (Deyo, 1987; Haggard & Moon, 1990). Furthermore, contrary to the literature on the DS that highlights economic miracles, Kang (2002) shed light on Korea's corruption and cronyism behind economic growth.

Although Turkey's state was traditionally stronger than society, its state-business relations were not as productive for economic policymaking as the DS's ones. The literature elucidates that Turkey's business community was fragmented and unable to participate in economic policymaking process through umbrella associations; further, it highlights that the absence of institutionalized links between the state and business spread clientelism and hindered sustainable economic reforms (Arat, 1991; Biddle & Milor, 1997; Buğra, 1994; Esmer, 1991; Gülfidan, 1993; Waterbury, 1992a).

Along with institutions, the literature on neoliberal transition in the late 1970s and 1980s takes note of the role of technocrats. According to Collier (1979), technocrats are "individuals with a high level of specialized academic training which serves as principal criterion on the basis of which they are selected to occupy key decision-making or advisory roles in large complex organizations – both private and public" (p. 403). Technocrats are different from the bureaucrats executing orders within the administration in that the former have an expertise of higher education or beyond as well as a significant impact on policy formulation and political procedure (Dalgic, 2012, p. 10).

Distinct from economic policymakers in the 1960s and 1970s, technocrats in the 1980s studied neoclassical economics in the US or worked at the IFIs. Their networks took part in "the diffusion of economics worldwide and in the international reconstruction of the economics profession around the neoclassical paradigm" (Fourcade, 2006, p. 177). Appointed to high echelons in economic policymaking by political leaders, new technocrats actively launched neoliberal transformation inside their governments (Babb, 2001; Coats, 1997; Fourcade, 2006, p. 152; Markoff & Montecinos, 2009; Williamson, 1994). In the literature, Chile is evaluated as the first archetype of neoliberal transformation led by the Chicago Boys who had studied neoclassical economics at the University of Chicago during the Pinochet regime (Clark, 2017; Huneeus, 2000; E. Silva, 1996; P. Silva, 1991; Valdés, 2008).

Like Chile, the bureaucracy of Korea and Turkey met personnel changes with the advent of the neoliberal wave. The literature on Korean technocrats in the neoliberal transition shows that the market-centered economic policy began to gain dominance among economists in the 1970s in the academic and bureaucratic circles (T.-G. Park, 2009). The technocrats formulated the 1979 stabilization program against Keynesians under the Park Chung Hee regime (Michell, 1981) and survived as main economic policymakers in the 1980s. Their profiles and policy orientations were distinguished from the previous economic bureaucrats (J. Woo, 1991, pp. 190–191). In particular, scholars and the then technocrats describe Kim Jae-ik as a pioneer of neoliberalism in Korea (K. S. Kang, 2010; Nam, Krause, & Kang, 2003).

Interestingly, Choi (1987a) studied that the technocrats of the Economic Planning Board, a nucleus of the DS, played a major role in pushing ahead with neoliberal reforms in the 1980s.

On Turkey's economic policymakers in the 1980s, most literature centers on Turgut Özal, who was the architect of the pre-coup stabilization measures, economic tsar under the military regime, and prime minister of the Motherland Party government. Accordingly, his background, governmental career, international and domestic linkage, policy orientation, and leadership were studied (Acar, 2002, pp. 163–180; Karataşlı, 2015; Öniş, 2004). Turgut Özal's neoliberal populism was compared to that of the Argentinean President Carlos Menem's (Öniş, 2004). Previous studies focused on Turgut Özal's young economic technocrats since the mid-1980s, highlighting their close ties with the prime minister and his family members (Ahmad, 1993, p. 193) as well as comparing their academic background, recruitment, and institutional structure with the Chicago Boys of Chile (Dalgic, 2012).

Most of the literature on neoliberalization in the 1980s demonstrates the unilateral impact of the US and the IFIs on developing countries and pays more attention to neoliberal prescriptions and their results in developing countries. From this point of view, previous studies assessed that Korea and Turkey in the 1980s stabilized and restructured their economies in cooperation with the IFIs in times of economic crises; therefore, their development paths, economic achievements, and economic reforms appear as comparative cases with other countries. However, little research has compared Korea and Turkey one-on-one (Karsan & Erhan, 2013; Krueger, 1987; Öniş, 1998, pp. 477–494; Taymaz & Voyvoda, 2012). For a better comparative analysis on neoliberal globalization in the two countries at almost the same economic level and under similar economic policy directions, it is necessary to delve historically and deeply into the endogenous factors of state bureaucracy and its interaction with political leaders and big businesses in both countries from the 1950s to the early 1990s.

Specifically, we must investigate to what extent neoliberal reformers were insulated from the outside pressure, how much they gained trust and authority from political leaders, how they related with politicians and traditional bureaucrats within the state, under what conditions neoliberalists formulated and implemented their policies, and to what extent they strategically formed an institutional link with private interest groups. Through these procedures, we can elucidate why neoliberal globalization, which had been similar at first, came to different conclusions in Korea and Turkey since the mid-1980s and onward; further, we can determine what the implications of state capacity in neoliberal globalization are from an institutionalist perspective. Finally, new features of the DS, characterized by changeability and diversity, are considered through the Korean case.

2.2 State capacity of the developmental state

To comparatively analyze the neoliberal divergence between Korea and Turkey in the 1980s and early 1990s, this thesis argues that a strong state with high state capacity succeeds not only in industrialization but also in neoliberalization; in addition, it pays attention to the DS theory, which institutionally explains the mechanism of a robust and competent state. According to the DS, a strong state differentiates itself from the Anglo-Saxon regulatory state and the socialist plan ideological state. Based on economic nationalism and neomercantilism, the DS strategically intervenes in economic activities for long-term economic success by seeking to improve national economic competitiveness in the world market (Pempel, 1999, pp. 139–140). However, not all countries succeed in economic development and reform just by intervening in the economy. Key elements of the DS are:

> (1) development as economic growth placed as the first priority; (2) the existence of an elite state bureaucracy consisting of the best talent using market-conforming methods of state intervention; (3) a political system in which the executive branch can take initiative and operate effectively vis-à-vis the legislative and judiciary branches of the government; (4) a pilot organization within the bureaucracy with leverage to control and command the implementation of industrial policy; . . . (6) a state with enough political will, power, and capacity to discipline capital. (Williams, 2014, p. 7)

What is state capacity, which is the key to the DS? It is the extent to which the state can implement policies. Weiss (1998) elaborated on the concept, claiming that state capacity is "the ability of policy-making authorities to pursue domestic adjustment strategies that, in cooperation with organized economic groups, upgrade or transform the industrial economy" (p. 5). Thus, as high state capacity was the driving force for industrialization, in a crisis, it represents how quickly and accurately the state can react to it and stably manage the economy by mobilizing effective policy measures (B.-S. Choi, 1989, p. 29).

Paradoxically, a market-driven economy needs state capacity. In this case, state capacity is not how successfully the state can intervene in the market but how the state can establish fair and competitive market systems by mitigating or removing government regulations and policy measures. Even in the period of global neoliberalization, state capacity is instrumental because the state can solve numerous difficulties better than the market at the national level. Weiss (1998) emphasized the state's transformative capacity as "the ability of a state to adapt to external shocks and pressures by generating ever-new means of governing the process of industrial change" (p. 4). Based on the importance of state capacity in economic development and neoliberal reforms, this thesis applies three elements of state capacity: (1) political leadership, (2) bureaucratic autonomy, and (3) government-business cooperation.

Then, it investigates economic policymaking, relations among economic political leaders, policymakers, and business circles as well as the institutional arrangements in Korea and Turkey in the 1980s and early 1990s. In theory, neoliberalism that emphasizes free-market mechanisms contradicts the DS, which presupposes state intervention in the market. However, the existence of bureaucracy, one of vital pillars of the DS, is closely linked to the state's efficiency. An autonomous bureaucracy filled with competent technocrats empowers the progress of economic reforms (Waldner, 1999, p. 216); therefore, such a bureaucracy is essential to activate market mechanism and to maintain order (Vartiainen, 1999, p. 201).

Firstly, as a core element of a strong state and its high capacity, bureaucratic autonomy is essential and must be distinguished from state autonomy. In a broad sense, the latter is the extent to which the state can be insulated from societal pressure and can coordinate resources and maintain its goals, undeterred by particularistic interests. Nevertheless, this approach assumes the state as a monolithic entity and overlooks conflicts, competition, and cooperation among various state agencies within it. Instead of state autonomy, therefore, this thesis uses the bureaucratic autonomy of a pilot agency in a narrow sense and an economic team—including a pilot agency and presidential or prime minister's economic advisors—in a broad sense. Then, what does a pilot agency do in the DS? The works of a pilot agency are as follows:

> The pilot agency performs think tank functions, charts the route for economic development, decides which industries ought to exist and which industries are no longer needed in order to promote the industrial structure which enhances the nation's international competitiveness, obtains a consensus for its plans from the private sector, acts as gatekeeper for contacts with foreign markets and investors, provides positive government supports for private initiative. (Wade, 1990, p. 195)

Insulated from interest groups, a pilot agency can formulate long-term economic policies and achieve its economic goals. According to Weiss and Thurbon (2016), the autonomy of a pilot agency, i.e., the insulation of a pilot body or an economic team, can be secured by:

> 1) Recruiting and/or organizing a core cadre of elite personnel who were among the best and brightest, and who shared similar life experiences and cohered around the same value set. These were the caretakers of the national project, the ones who were responsible for setting the social goals, for coordinating the necessary resources and for ensuring that progress was monitored.
> 2) Protecting this "pilot body" from corrupting pressures and special interests of a personal, patronage or political nature. This was achieved by remunerating state actors in a way that reflected the professionalism and importance of the office, which also built prestige into the office. It also meant prioritizing merit-based recruitment and a performance-based career track, both within the pilot body and more generally throughout the public sector. (p. 648)

A pilot body filled with technocrats should have Weberian characteristics and be insulated not only from the society but from politicians and other economic ministries within the state. For example, almost all Japanese bureaucrats of the Ministry of International Trade and Industry, the prototype of a pilot agency, graduated from the University of Tokyo and passed the most difficult exam to enter the bureaucracy. Managing the national budget, this elite group formulated most of the bills and made key decisions vis-à-vis pressure groups and political demands. The Japanese Diet did not draw up nor passed bills, and it only ratified the government’s policies (Johnson, 1982, pp. 20, 48). Much of the literature on the DS and state capacity regards the bureaucratic autonomy of a pilot body as given and static and does not address its variability; further, the institutional foundations of the DS can vary and be restructured by constant internal and external pressures. Thus, this thesis investigates the variable relationship between political leaders, old and new bureaucrats, and businessmen.

Such bureaucratic autonomy of a pilot agency is institutionally invented and can be consolidated or weakened by how it relates to political leaders; moreover, it varies by a political leader’s goal and confidence in a pilot agency. To be specific, a political leader should have a firm and long-term vision of the economy, and the policy of a pilot agency can be realized when it corresponds with the political leader’s goal. For bureaucratic autonomy, a political leader should shield a pilot agency from internal and external pressure and secure its hierarchic primacy over other economic ministries and political actors within the state. Otherwise, it is impossible for the pilot organization per se to consistently formulate and implement economic policies. If economic policy decisions are decentralized, political and social actors may intervene in the economic policymaking process. In such circumstances, each economic ministry may also try to increase its factional interests (Jung & Ji, 2017).

Along with bureaucratic autonomy, the last key to improve state capacity is the collaboration between the state and the business. The state cannot be completely disconnected from economic entities and does not always dominate them; they affect each other. Policies reflect the results of interactions among the actors seeking economic interests (Eder, 1993, p. 315). According to Evans (1992), embedded autonomy that combines bureaucratic autonomy with institutionalized cooperation between the state and businesses ultimately improves state capacity. If the economic policymakers are too insulated from outside, economic policies are likely to be arbitrary, and the business community feels uncertain about the government's economic policies. The government must also rely on activities of the private sector to implement economic policies (pp. 178–179).

Strong states like the DS are not authoritarian states with only coercive powers but capable ones that communicate and cooperate with the private sector to achieve economic goals.[8] They are marked "not only by a high degree of bureaucratic autonomy and capacity, but also by the existence of a significant degree of institutionalized interaction and dialogue between the state elites and autonomous centers of power within civil society" (Öniş, 1991b, p. 123). Coordinating policies reflecting the opinions of the business, the state generates productive outcomes without being caught up in rent-seeking (Yavuz, 2007, p. 53). What are the benefits of state-business collaboration to improve state capacity?

> (a) collaboration is necessary for obtaining adequate information on the sectors or subsector to be protected or subsidized; (b) institutionalized collaboration is also necessary in terms of achieving a consensus within the business community concerning the nature of the incentive regime, the allocation of subsidies and investment allowances and longer-term goals of economic policy; (c) finally, a mix of autonomy and collaboration is crucial in terms of monitoring performance and establishing discipline over the private sector in return for the incentives offered. (Öniş, 1998, pp. 480–481)

Thus, the state must be "immersed in a dense network of ties that bind them to societal allies with transformational goals" (Evans, 1995, p. 248). In East Asia, the

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[8] Yet, it is difficult to generalize that all DSs institutionalized public-private cooperation systems. In the case of Taiwan, unlike Korea and Japan, there were no such state-business policy networks. Businessmen contacted the government individually, not through associations, for their own benefits (Wade, 1990, pp. 284–296).

methods of connecting the state and the private sector were as below:

> First, leaders established regular lines of communication, consultative mechanisms, both formal and informal, between the industry policy arms of the bureaucracy on one hand, and industry actors on the other. This continuing conversation between government and industry and others was used to leverage the expertise of political and economic actors, to discover the development opportunities. . . . Second, leaders devised a policy strategy . . . via a discovery process based on consultative mechanisms that enabled a continuing conversation with economic actors and experts, identifying where constraints and opportunities existed and how to overcome the obstacles. Third, leaders built in performance standards. Whatever the policy adopted and whatever the incentive structures that were put into place, effective implementation rested on specifying performance requirements. (Weiss & Thurbon, 2016, p. 649)

Considering that bureaucratic rationality is not always right, the state's communication with the private sector—especially businesses—can complement bureaucratic ability, whereby the state can "formulate long-term goals, acquire the information needed to effectively pursue those goals . . . and yet be sufficiently constrained by forces outside of the state so that its actions do not simply foster the interests of state elites" (Wright, 1996, p. 177).

For embedded autonomy, the role of the private sector as well as the efforts of the state are important. Cohesively organized and encompassing peak business association is required to prevent individual firms or sectoral organizations from pursuing particularistic interests via informal or personal contacts with the government officials (Olson, 1982, pp. 47–53). Such a peak association of the private sector, which is less vulnerable to rent-seeking and is relatively transparent, can aggregate the interests and concerns of firms belonging to the association and effectively connect them to the government (Lucas, 1997, pp. 74–75). Therefore, "the more encompassing and cohesive the organization of industry, the more cohesive and insulated the executive bureaucracy, and the tighter the between the two, the greater the capacity for innovation" (Weiss, 1998, p. 44).

However, the forms of state-business cooperation change over time. Even DSs, which had achieved economic growth through the alliance with businesses and the exclusion of labor, face pressure not only from sizable industrial workers but also from the middle class, calling for democratization, and from businesses, refusing the government's intervention in the economy in the 1980s (Deyo, 1987; H. Koo, 1987). Nevertheless, the state-business relationship is not zero-sum; through cooperation, the two can create a synergy effect on state capacity. Reflecting the changing relationship between the state and businesses, Weiss modified Evans' concept of embedded autonomy, claiming that this could be valid only until the business is reliant on the state. With the success of the DS, big businesses could challenge the state (Evans, 1995, p. 229). Thus, Weiss presented governed interdependence,[9] i.e., new institutionalized cooperative linkages between a strong state and a strong private sector that stress reciprocal consultation and coordination (Weiss, 1998, pp. 37–39).

In sum, state capacity is a compound of political leadership, bureaucratic autonomy of a pilot agency or an economic team requiring the entrustment and protection of political leaders, and the institutionalized collaboration of the state and businesses. Through the combination of these three elements, state capacity can be wielded to the maximum not only for industrialization but for economic reforms, as illustrated in Figure 2.

[9] Governed interdependence is "a negotiated relationship, in which public and private participants maintain their autonomy, yet which is nevertheless governed by broader goals set and monitored by the state" (Weiss, 1998, p. 38).

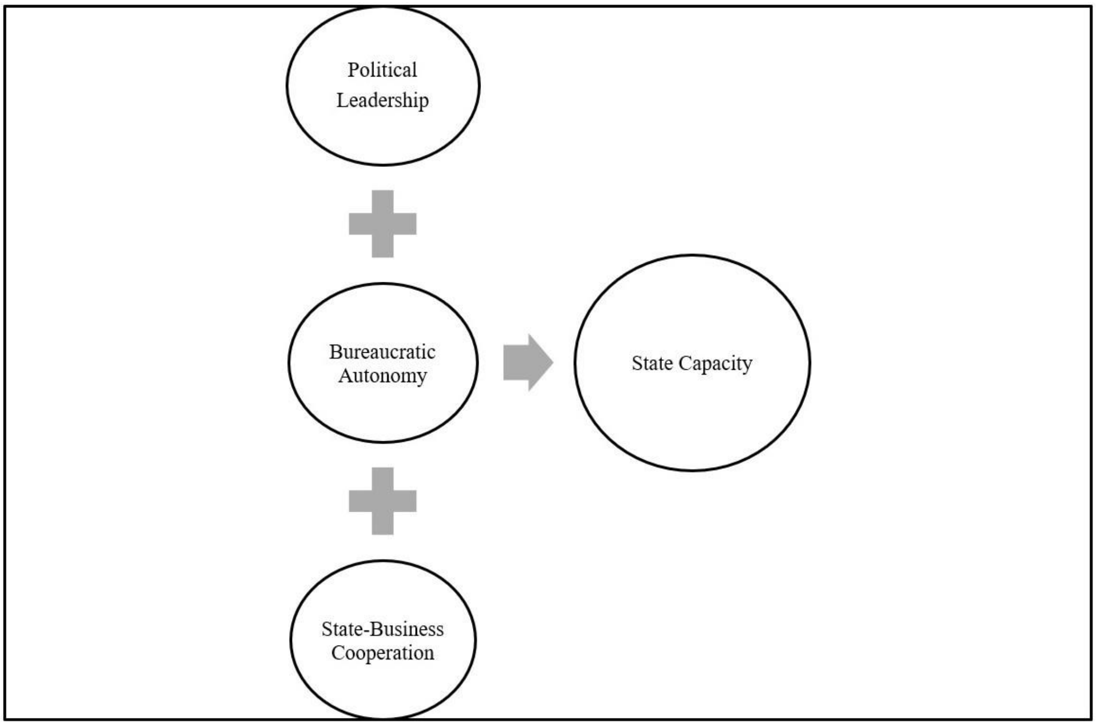

Figure 2. State capacity: A compound of political leadership, bureaucratic autonomy, and state-business cooperation

Based on this theoretical framework, this thesis historically compares and studies the cases of Korea and Turkey in the 1980s and early 1990s, when neoliberal transformations were launched in earnest and steadily implemented.

CHAPTER 3

POLITICAL ECONOMY FROM A HISTORICAL PERSPECTIVE

Chapter 3 historically explores the political economy of Korea and Turkey from the 1950s to the 1970s before moving to neoliberal transformation in the 1980s. First, it is instrumental to study the pre-reform period of both countries. In the 1950s, systematic economic development plans for industrialization were neglected, and state-business relations took the form of a rent-seeking coalition in both countries. However, the 1961 coup in Korea and the 1960 coup in Turkey heralded the era of planned industrialization of both countries. In the 1960s, Korea turned into a DS, whereas Turkey did not. Despite the differences in state capacity and development strategies, Korea and Turkey achieved economic growth under favorable international economic conditions in the 1960s. Nevertheless, excessive investment to deepen industrial structure after the early 1970s and subsequent external shocks brought the two countries into economic crises in the late 1970s. As a result, Korea and Turkey led to the announcement of stabilization programs contrary to their previous development strategies.

Chapter 3 is divided into three sections. The first and the second sections investigate the political economy of Korea and Turkey from the 1950s to the 1970s, respectively. The industrial structures and institutional legacies during this period would be pre-conditions for economic reforms in the 1980s and beyond. Based on the DS theory, the first two sections examine Korea’s and Turkey’s institutional settings, pilot agencies, interrelations among political elites, economic bureaucrats, and business circles and consider distorted industrial structures, international shocks, the resultant economic crises, and the responses to these. The last section summarizes the aforementioned sections and analyzes them from a comparative historical point of view.

3.1 Korea

3.1.1 The decade of import substitution industrialization

The Korean Peninsula was liberated from Japan's 35-year harsh colonial rule with the end of World War II, but it was then divided into South Korea and North Korea. Confronting the communist North, South Korea established a republic under the presidential system in August 1948. President Syngman Rhee (hereafter Rhee), pro-American and anti-communist, implemented a land reform in 1949 to forestall the spread of communism, gain the support of small landowners, and remove the socioeconomic bases of the traditional landed class supporting opposition parties (Waldner 1999, 131). Through the Korean War, between 1950 and 1953, Rhee's power was more consolidated than the prewar period under the banner of anti-communism; his regime transformed into an autocratic one with strong military and police forces oppressing the civil society (Y. T. Kim, 1999, p. 153). The parliament was not able to keep the presidential power under check; the peasants, beneficiaries of the land reform, supported Rhee, and unorganized labor unions were politically feeble (H.-W. Koo & Y.-H. Woo, 2012, pp. 259–263).

On the economic side, the Rhee government adopted the ISI strategy, which was entirely based on US-centered foreign aid. From 1950 to 1960, Korea received about $2.4 billion in foreign aid, and the earnings derived from it accounted for over 70% of the government's revenue (Il-Young Kim, 2007, p. 177). Under the ISI, the Rhee government was deeply involved in the economy by controlling aid goods and their allocation. At the time, Korea appeared to be a strong state but not a DS.

Firstly, although the Rhee government, which remained in power for more than a decade, enjoyed considerable autonomy vis-à-vis society, the political leader neglected developmental goals and the need for an autonomous pilot agency. Rhee put political survival ahead of economic performance. The Rhee government had developmental technocrats who had studied in the US and worked at international organizations. Nevertheless, their power in economic policy decisions was very weak, and some state apparatuses did not act as a pilot agency.

In 1955, the Ministry of Reconstruction devised long-term plans on the US aid and coordinated stabilization programs with the US aid mission. The following year, the Economic Development Council also designed a three-year plan; yet the president did not delegate economic policies to these institutions, nor did he guarantee their autonomy from outside pressure and primacy over other ministries. The Ministry of Finance (MF) resisted the authority of the Ministry of Reconstruction and the Economic Development Council. Young and low-ranking developmental technocrats of the Ministry of Reconstruction did not have a loud voice within the government (Haggard, Cooper, & Moon, 1993, pp. 303–304). Institutionally, the Ministry of Reconstruction did not have the upper hand over the MF in charge of budget functions; furthermore, the ruling Liberal Party, a proxy of the president, overwhelmed the state machinery. Some bureaucrats voluntarily placed themselves under the protection of the Liberal Party (Moon & Rhyu, 1999, pp. 187–188). In the absence of bureaucratic autonomy of a pilot agency, the Liberal Party and the private sector tied with it influenced economic policymaking (Haggard, Kim, & Moon, 1991, p. 855).

Secondly, when it came to state-business relations, the Rhee government built a patronage system without formal channels with the businessmen, and there was no government's discipline that would link rents with economic performance. As agricultural capital could not be converted into industrial capital, the formation of capital and capitalists revolved around government-distributed goods. To attract businesses into the ruling coalition and raise funds for election campaigns, the Rhee government chose some renowned businessmen and conceded the properties that Japanese colonialists had left as well as government-owned commercial banks to them (Moon & Rhyu, 1999, p. 193; In-Young Kim, 2001, p. 484). This helped a small number of big firms, the *chaebol,*[10] to have access to the US-backed raw materials, importing licenses and quota, preferential bank loans, and government contracts. These privileges for chaebols generated black money that would reflow into the government and the ruling party (Haggard et al., 1991, p. 854). Such individual networks over the rents between chaebols and the Liberal Party revealed the predatory nature of the Rhee government and its low state capacity.

In the late 1950s, concerns over inflation forced the US—the largest aid donor—to put pressure on Korea to implement austerity. Although tightening policies were introduced, these were ineffective because of the pressure from the ruling party, which was aware of elections (Moon & Rhyu, 1999, p. 190). What is worse, foreign aid to Korea started to decline and was transferred to credit assistance from the grant, causing an economic recession and politically damaging the aid-based ruling coalition. Korea needed to devise economic plans to build a stable economy, as India and other Asian developing countries had already done in the mid-1950s; however, economic development plans could not be promoted as a national project without presidential support. Korea's Gross National Product (GNP) growth rate gradually

[10] Chaebol refers to "a family-owned and managed group of companies that exercises monopolistic or oligopolistic control in product lines and industries" (J. Woo, 1991, p. 149).

declined to 5.2% in 1958, 3.9% in 1959, and 1.9% in 1960 (Haggard et al., 1991, p. 853). Amid serious inflation, rising unemployment rate, and rampant corruption, in the wake of the rigged election, students and the urban middle class overthrew the Rhee government on April 19, 1960.

After adopting the parliamentary system, the duty of finding a solution to the politico-economic conundrums was handed over to Prime Minister Chang Myon and the Democratic Party, which was politically very weak and incapable of running the state. The ruling party, a loose anti-Rhee coalition, was internally fragmented and had trouble dealing with the needs of various societal groups (Haggard et al., 1991, pp. 856–857). Moreover, the Democratic Party government failed to build a sound relationship with the business. Illegal amassers were the source of political funding to the Democratic Party government. Prime Minister Chang Myon demanded owners of big businesses to donate huge amounts of political funds (In-Young Kim, 2001, p. 487).

Under a weak political leadership caused by the conflict between the president and the prime minister, the Democratic Party government prepared the Five-Year Economic Development Plan and intended to create a Ministry of Economic Development by dismantling the Ministry of Reconstruction. However, economic policies still relied on US aid, and insufficient punishment for corrupt businessmen involved with the Rhee government raised public disgruntlement and social turmoil. On May 16, 1961, General Park Chung Hee staged a coup with some young officers, and the 11-month government of the Democratic Party came to an end (T. Kim, 2013, p. 13).

3.1.2 The birth of a developmental state

Just after the coup, General Park Chung Hee (hereafter Park) established the military junta and tried to win the favor of the urban middle class and students by punishing the rent-seeking chaebols and appropriating their illegal property (Waldner 1999, 134–35). Amid widespread antipathy toward chaebols in society, however, Park recognized that the legitimacy of the coup would depend on economic growth and that big businesses would be required for the national economy in the long run.[11]

Lee Byung-Chull, a founder of Samsung Group, had a private talk with Park and asked him to release 12 arrested businessmen under investigation for corruption charges (E. Woo, 2016). Park absolved them of criminal punishment in return for their contribution to industrialization, which made it easy for him to nationalize the commercial banks of chaebols and ensure the state's control capital vis-à-vis the business (J. Woo, 1991, p. 84). The released businessmen organized the Economic Reconstruction Promotion Society to represent their interests on July 17, 1961. A month later, Lee Byung-Chull took office as the first chairman of the Economic Reconstruction Promotion Society and changed its name to the Korea Business Association; later, on March 28, 1968, this association would become the Federation of Korean Industries (FKI) (G.-S. Park & K.-P. Kim, 2010, p. 135). This business association for only big capitalists was so homogenous that the association was able to aggregate and articulate the common interests of members. This contrasted with other business organizations, which were composed by companies of various sizes in heterogeneous fields (D.-R. Hong, 1997, p. 17). With the establishment of a peak organization representing big businesses, a state-led developmental coalition was

[11] The military junta did not regard small and medium-sized enterprises as partners and feared that large multinational corporations would violate national sovereignty (G.-S. Park & K.-P. Kim, 2010, p. 134).

born.

Park took over "a politically demoralized and technically backward institution" (H.-A. Kim, 2011, p. 85). Cooperating with big businesses, he emulated Japan's modernization from above[12] and in turn focused on creating a Weberian bureaucracy from scratch (Keunsei Kim, 2012, p. 9).[13] Through these far-reaching institutional reforms, new bureaucrats with expertise were recruited. In July 1961, he created the Economic Planning Board (EPB) to concentrate economic policymaking in the hands of a strong pilot agency and enforce policies efficiently.[14]

The EPB played a leading role in devising development plans, drawing up a budget, collecting statistics, controlling prices, and managing foreign borrowing and foreign direct investment from a developmental perspective. As a super-ministry, the EPB had a strong say by setting up the guidelines for the annual budget and by assessing annual proposals submitted by the other ministries. Furthermore, from 1963 on, the Minister of the EPB also served as the deputy prime minister and operated various consultative and deliberative bodies for overall economic management (Kyŏngjegihoegwŏn, 1982, pp. 6–8).

Like other ministry officials, the EPB had the typical characteristics of a Weberian bureaucracy. The EPB's technocrats with a significant educational background in economics were selected through the competitive high civil service

[12] Park defined his coup d'état as a revolution for the nation's reconstruction. Although it was the Meiji Restoration of Japan that had the greatest influence on him, in his book, he also cited the revolution of Mustafa Kemal Paşa of Turkey as important (C. H. Park, 1997, pp. 177–187).
[13] According to a critique of the DS bureaucracy, however, Rhee had already tried to reform the government's organization and bureaucracy, and Park took advantage of Rhee's efforts (D. C. Kang, 2002, pp. 65–74).
[14] Song Chung-pum, a former vice-minister of the EPB, drafted a proposal to establish a new economic ministry under the command of the military junta. Given the examples of the past and other countries, Song thought that the planning and budget functions should be unified into a ministry whose head should be given a second rank in the cabinet (Song, 1987, pp. 28–29).

examinations, and their career and political neutrality were ensured. Many technocrats of the EPB overlapped in schools, ages, and job experiences, which enabled them to form cohesiveness (B.-K. Kim, 1988, pp. 81–82). In addition, the EPB built close networks with the US Operations Mission and international organizations, through which many technocrats of the EPB could learn market-oriented economics abroad. According to Lee Kyung-sik, who had worked at the EPB and later served as deputy prime minister, the MF had traditionally been the strongest within the bureaucracy, followed by the Ministry of Commerce and Industry (MCI). Initially, the EPB was treated as a third-class ministry within the bureaucratic society; however, through such overseas training, the quality of the officials at the EPB exceeded that of the MF and MCI (K. Kang, Y. Lee, & S. O. Choi, 2008, pp. 295–296).

Many ministries were connected to interest groups in the society: the MCI served industrial associations, the Ministry of Agriculture and Fisheries farmers organizations, and the Ministry of Labor trade unions (B.-S. Choi, 1987b, p. 8). The EPB was not engaged in any interest groups; thus, the EPB had a broader outlook on the economy and was objectively able to analyze the economic situation and present a long-term policy direction (K. Kang et al., 2008, pp. 68–69). However, the law alone was insufficient for the EPB's bureaucratic autonomy to be guaranteed.

In the 1963 presidential election, when coup leader Park ran for president and won, the military rule became a civilian one. The new republic under the presidential system featured a strong administration and a weak parliament. President Park was able to appoint cabinet ministers, including the prime minister, and to wield influence over the judiciary branch; the president's emergency powers restricted freedom of the press, assembly, and speech through the constitution (Haggard et al., 1991, p. 858). Placing economic development as a top priority under the oppressive political system, Park counted on the economic expertise of technocrats to manage complicated economic matters rather than the ruling Democratic Republican Party; in particular, the president entrusted economic policies to the EPB and protected it from outside pressure (B.-S. Choi, 1991, p. 24). The president continued to empower the EPB; for instance, at the Monthly Economic Trend Briefing Session hosted by the EPB, the president visited the EPB and met with officials from economy-related ministries—an important sign for the president to enhance the status of the EPB (K. Kang et al., 2008, p. 332). Therefore, the Deputy Prime Minister and Minister of the Economic Planning Board (DPMMEPB) was the president's "top economic advisor, the principal government spokesman on the economic policy, and the economic policy team leader" (B.-S. Choi, 1991, p. 25).

By the time Korea was making institutional features for a DS, nationalist colonels of the military junta hurriedly led the First Five-Year Economic Development Plan without consulting with the US. The First Plan confronted difficulties because it mobilized domestic capital and pursued the inward-looking industrialization strategy through monetary expansion. This indicates that the military elite approached economic development on an emotional level and did not have expertise in concrete planning. The US denigrated the First Plan as a shopping list to gain more the US aid rather than as an economic development plan (T'ŭkpyŏlch'wijaet'im, 1997).

In 1964 and 1965, Park could not but modify the original plan and approved the stabilization programs on advice from the US. The multiple exchange rates were simplified into a single-pegged exchange rate together with a significant devaluation, and trade liberalization was partially introduced (B.-K. Kim, 1992, p. 198).

Considering limited domestic capital and technology, a small domestic market, and available cheap labor, Park adopted EOI. Korea had a comparative advantage in labor-intensive light industries and supported them with foreign loans. Politically, it also aimed at neutralizing the rent-seeking coalition in the 1950s. Unexpectedly, Korea's remarkable export performance encouraged Park to push export promotion more actively. Park delivered a speech highlighting the absolute importance of exports on January 16, 1965:

> To go with increased production, the government has set as another major target –increased exports. In a country which depends heavily on imported raw materials for its industries, export is the economic lifeline. For many years, Korea exported only $20 million to $30 million worth of goods a year. Even such exports were negligible, except for tungsten. But in the past few years, the government and people awoke from sleep and strove. Exports began to expand rapidly. Last year, our exports exceeded the $120,000,000 mark. Although there is still a gap in the balance of payments, this much is true: that we have acquired the self-confidence that we, too, can successfully compete with others in the international export race. . . . The international community is gradually awakening to the export potential of Korea. I believe that the time has come finally for us to reap the fruit of our investment. (B. S. Shin, 1970, pp. 305–306)

To enhance the profitability of the export sector, the Park government provided extensive subsidies and support for new export companies. These incentives were conditioned on their export performance in the world market, and protectionist measures were time-limited. The Park government's fiscal policy was so strict that it could give more resources to development tasks; as a result, state resources were strategically used for capital accumulation and the international competitiveness of targeted sectors (Waldner 1999, 142–44). Chaebols actively participated in the export industries and were able to grow their businesses.

For state-business cooperation, formal channels between the government and the business were institutionalized. The Monthly Meeting for Export Promotion (later Monthly Meeting for Trade Promotion) was held at the Presidential Office. In the meeting where the president, top government officials, and business and financial figures attended, necessary support measures were quickly taken for exporters. At the year-end meeting, excellent exporters were awarded, which was a symbol of the Park government's selective incentive strategy (H.-W. Koo, 2009, p. 159). The state disciplined large corporations through performance standards and punished the underperformers while rewarding the good performers. It was a reciprocal relationship that contributed to industrializing the nation and allowed chaebols to also grow (Amsden, 1989, pp. 14–15). This evaluation was made under the supervision of government officials and the industries' regular reports on their export performance (Weiss, 1998, p. 51).

Not only at the meeting but also at its preparatory stage and afterward, a significant amount of information was exchanged between the private sector and the government, and policies were coordinated (D. Kim, p. 68). The sharing and exchange of information, consultations, and the institutionalization of contact channels between the state and businesses embodied the embedded autonomy. Thus, Korea's state capacity as a typical DS was very high. This demonstrates that the state and businesses built close networks for the common goal of economic development and were deeply intertwined for survival.

From 1963 to 1972, Korea achieved 9.1% of average real GNP growth per annum by exports in labor-intensive light industries (Corbo & Nam, 1992, pp. 35–36). However, chaebol-centered and growth-first EOI created structural path dependence; exports had to increase to repay foreign debt, and decline in exports exacerbated the balance of payments, in turn slowing down economic growth. Thus, exports had to increase at any cost (D. Yoon, 2012, p. 48).

3.1.3 The end of developmental dictatorship

Threatened by the increasing popularity of opposition parties in elections,[15] Park promulgated a state of emergency and martial law on October 17, 1972. Park dissolved the parliament, banned all activities of political parties, prohibited speech and assembly, and censored media and publications in advance. On December 23, 1972, Park finally proclaimed the new constitution, which enabled him to become the president for life, to appoint one-third of members of the parliament, and to dissolve the National Assembly arbitrarily (Haggard, 1994b, pp. 28–29; Rhee, 1994a, pp. 59–60). As in the 1961 coup, Park had to show economic performance once again to justify his personalist dictatorship—the so-called *Yushin*[16] regime. At the time, technologies of heavy and chemical industries started to be transferred to developing countries from advanced countries. This change gave Korea a chance that could deepen the industrial structure and diversify export items, and Park announced the Heavy and Chemical Industry (HCI) plan in January 1973:

> I would like to make an important declaration about the economy to our people here today. Our country's industry has entered the era of heavy and chemical industries. . . . In the early 1980s, to achieve our $10 billion export target, heavy and chemical products would have to account for far more than 50 % of the total exports. To that end, the government is now pushing to step up efforts to foster heavy and chemical industries such as steel, shipbuilding, machinery, and petrochemicals to strengthen the export of products in these areas. . . . The government plans to build many large industrial complexes or bases on an international scale in the eastern, southern, and western coastal

[15] In contrast to a landslide victory in the 1967 presidential election, Park and the ruling party struggled against the opposition in the 1971 presidential and general elections, respectively (D. Lee, 2009, p. 96).
[16] Yushin means revitalizing reforms.

regions from now on. (C. H. Park, 1973)[17]

The HCI plan was to promote six strategic industries in steel, nonferrous metal, machinery, shipbuilding, electronics, and chemical engineering.[18] With a long-term vision of the HCI plan, however, President Park directly intervened in economic policymaking and implementation, thereby eroding the bureaucratic autonomy of the EPB. This contrasted with the 1960s, when Park and the EPB had shared the same development goals, and the former had entrusted the other with economic policies. In the 1970s, the EPB, overseeing the entire economy from a long-term perspective, argued the transition to market-oriented and gradual HCI drive; however, Park created an organization dedicated to the HCI drive in the Presidential Secretariat (D. C. Kang, 2002, pp. 92–93).

Hence, the institutional structure of economic policies was dualized. The Presidential Secretariat recruited elite bureaucrats from each economic ministry as economic secretaries and vice-ministerial officials as senior economic secretaries. On the HCI drive, the Presidential Secretariat became a leading organization that surpassed economic ministries with regard to expertise, information, and data analysis and managed policy implementation (Chung, 1994, pp. 95–96).[19] Apart from the EPB's Third Five-Year Economic Development Plan, the Presidential Secretariat prepared an HCI plan in collaboration with the MCI (Haggard, 1994b, p. 34).

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[17] My translation. See Appendix A for the original text.

[18] Military factors also played a major role in the HCI declaration. The Nixon administration of the US's withdrawal of the 7th division from Korea in March 1971 reminded Park of the urgency to foster heavy and chemical industrial bases for military defense (B.-S. Choi, 1991, p. 93).

[19] Elite officials from various ministries were dispatched to work in the Presidential Secretariat. Then, they were promoted and returned to their ministries (Chung, 1994, p. 59).

The HCI Planning Council, under the direct control of the president, bypassed the EPB and gave directions to the MF, banks, and the MCI, deciding on the locations of plants, their production capacity, and the companies to build them. Although the EPB pointed out redundant investment in the HCIs, nobody dared to oppose the HCI plan (Y. S. Choi, 2012, p. 51). With the collapse of the EPB-centered institutional hierarchy, there were conflicts and competition among economic ministries to take the initiative in economic policy; in particular, the MCI, which represented the interests of specific industries under its jurisdiction, mobilized them in economic policymaking. This led to the incoherence of industrial policy in the government (B.-S. Choi, 1991, pp. 56–62).

While Korea was fully committed to the HCI drive, the first oil shock quadrupled the oil prices and posed a huge threat to the Korean economy, entirely dependent on crude oil imports. The economic crisis became visible from August 1974, when energy-intensive industries and exporters were hit hard owing to the deterioration of terms of trade. As industrial production and exports declined, 10% of small and medium-sized enterprises were closed in 1975 (Jung-eun Lee, 2010, p. 254). While other DSs such as Japan and Taiwan initiated stabilization to curb inflation during the first oil shock, Korea moved toward taking more risks, which would later lead to a greater crisis. Park adhered to the existing export-driven, growth-first strategy, declining the advice to scale down the HCI drive (J. Woo, 1991, 128; Clifford, 1994, 109).

Utilizing high international liquidity and low-interest rates caused by the inflow of oil money, the Park government invested foreign capital more aggressively in diversifying and deepening the industrial structure. In December 1974, the Korean won was depreciated by 20% in 1974 to overcome the crisis through export promotion (Jung-eun Lee, 2010, p. 268). Although the current account deficit increased dramatically due to oil and HCI-related imports, the Park regime covered the deficit by borrowing abroad and by depleting its foreign exchange reserve. While total foreign debt increased by 42% between 1973 and 1974, and the ratio of total debt to GNP rose by 8% from 1974 to 1975, the ratio of investment to GNP increased by 6% between 1973 and 1974 (Amsden, 1989, p. 98).

However, nobody argued for stabilization in the government. Even Nam Duck-woo, the then DPMMEPB who had advocated stabilization until the early 1970s, emphasized growth rather than stability. In a new year's interview with an economic newspaper in January 1976, he rebutted several economic stabilization claims that inflation should be curbed by lowering the target growth rate for the livelihood of the people. Instead, he argued that inflation was better than high unemployment, saying that the control of inflation rate could lead to negative growth, whereby many people would lose their jobs (B.-S. Choi, 1991, p. 204).

As to state-business relations, the Park regime wanted chaebols to invest in large-scale heavy and chemical industrial facilities; however, chaebols were reluctant to invest in the HCIs because of investment risks and high debt ratios. In 1974, the Park regime instituted National Investment Fund through compulsory deposits of financial institutions (Haggard, 1994b, p. 34). According to the *Fiscal Investment and Loan Program White Paper* published by the MF, the ratio from the total amount of national investment funds funneled to HCIs was 54.8% in 1974 but reached 71.7% in 1979 after peaking at 73.8% in 1977 (Chaemubu, 1982, p. 95). The Park regime took a carrot-and-stick approach vis-à-vis the business. The government provided preferential policy lending to compliant chaebols and allocated foreign capital to them first; under such a financial system, low-interest policy loans were concentrated more on chaebols investing in the key HCIs. Conversely, the government threatened or punished chaebols that did not comply with the policy by cutting off loans and by disapproving their investment (Rhee, 2003, p. 151).

To solve the difficulties of exporters, the General Trading Company system was introduced in 1975. General Trading Companies were able to borrow money at less than half the market interest rate of interest. Many chaebols were selected as General Trading Companies, and their share in total exports was even higher (G.-S. Park & K.-P. Kim, 2010, p. 142). By 1975, major chaebols rushed into the HCIs by expecting that their participation in the president-led project could exert their influence on the state's decision-making and gain more material resources. In turn, restrictions on chaebol's entry in the project became nominal. Competition among rival chaebols overheated the HCI drive (B.-S. Choi, 1991, pp. 108–109).

The embedded autotomy of the DS was also damaged after the early 1970s. Prior to the full-fledged HCI drive, the government and businesses contacted each other through informal channels. Import restrictions on light industry goods in advanced countries and wages increases weakened the competitiveness of labor-intensive Korean products in the world market. Highly leveraged large Korean firms were driven to the brink of bankruptcy, and the FKI visited the president and asked for a bailout for chaebols. Park accepted their demands (S.-H. Cho, 2009, pp. 168–169; G.-S. Park & K.-P. Kim, 2010, pp. 144–145). Without consulting the EPB, Park announced the *Emergency Measures Regarding Economic Stability and Growth* on August 3, 1972, which aimed to relieve the debt burden on over-expanded companies by freezing their private loans from the curb market or by converting them into equity (Amsden, 1989, p. 96). Contrary to market principles, the measures demonstrated how deeply intertwined the state and the business world were for survival.[20]

In addition, the president's political decision was to attract conglomerates to heavy and chemical industrialization later. After the HCI drive, chaebols went directly to the president and pushed on their demands whenever they had problems with the EPB and other ministries (Jung & Ji, 2017, p. 88); thus, over-investment and resource waste were rampant over time. The HCI drive intensified export-dependent path, and industrial structures became increasingly big business-centric (D. Yoon, 2012, p. 49). It was increasingly difficult for the Park regime and chaebols in the same boat to correct or stop the HCI drive.

As stimulus measures began to take effect in advanced countries, the global economy began to follow an upward trend. Korea returned to high-speed growth on the back of rising exports and overseas construction, unlike other oil-importing developing countries (Amsden, 1989, pp. 98–99). As both exports of $10 billion and GNP per capita of $1,000 were achieved in 1977, all goals announced in 1973 were accomplished four years earlier than planned (K.-J. Park, 2017, p. 61). On a value-added basis, the share of HCIs accounted for only 44.8% of the total in 1973 but exceeded 50% for the first time in 1977 and reached 54.7% in 1979 (Sung, 1988, p. 21).

Despite inflationary pressure, the Park regime continued to rapidly expand the money supply through policy loans for exports and HCIs. Chronic inflation and wage increase exceeding productivity weakened Korea's international competitiveness in the protectionist world trade environment in the late 1970s

[20] Behind such Park's pro-chaebol policy, there was a practice in which chaebols provided political funds to the ruling party in return for the state's preferential treatment to the business community (D. C. Kang, 2002, pp. 98–121).

(SaKong, 1993, p. 54). Excessive and imbalanced investment in the HCIs engendered “overcapacity, low operation, and delayed plant construction” (Rhee, 1994a, p. 85). The financial situation of non-export industries and light industries worsened, and the gap between chaebols and small businesses widened (Jung-eun Lee, 2010, p. 272). Energy- and capital-intensive HCIs required more foreign loans than planned, thereby heightening the foreign debt-dependent economic structure. Consequently, the dualization of economic policies and the increase in covert contacts between the president and chaebols significantly weakened Korea’s state capacity to predict and cope with the looming economic crisis.

3.1.4 The transition to stabilization

The EPB and the Korea Development Institute (KDI)[21] began to warn of the possibility of an economic crisis in 1978. Reform-minded neoliberal technocrats, who had entered the EPB through the high civil service examination or had studied neoclassical economics in the US, took charge of economic affairs in the 1970s, claiming a need for economic stabilization against the grown-first strategy advocated by the Presidential Secretariat and the MCI (T.-G. Park, 2004, pp. 30–31). For them, the HCI promotion and export support policies triggered chronic inflation, distorted resource allocation, and intensified economic imbalance. However, the president firmly believed that inflation and heavy reliance on big businesses were a necessary evil for high growth; besides, successful economic performance following the first oil shock reinforced his belief in an export-driven growth strategy (B.-S. Choi, 1991,

[21] The KDI was established as a think tank of the EPB in 1971 by the US Agency for International Development. The KDI recruited well-trained economists, who had studied abroad, and played a role in spreading market-oriented thinking and the liberal view in the academic world and bureaucracy.

p. 146). In the dissonance between the EPB and the president over economic policy, the former attempted to convince the latter of the necessity of stabilization because the president had the final say.

Just after the ruling party received fewer votes than the opposition parties in general elections in December 1978,[22] Park reshuffled the cabinet and gave a mandate to the new DPMMEPB, Shin Hyon Hwak, to formulate policy measures to curb inflation.[23] Shin Hyon Hwak sympathized with the necessity of economic stabilization and promoted neoliberal technocrats such as Kim Jae-ik and Kang Kyong Shik to high echelons of the EPB. On Park's visit to the EPB in January 1979, Shin Hyon Hwak made a presentation entitled *New Strategy Toward the 1980s*, emphasizing that Korea should lift import controls on agricultural products, interest rate regulations, and policy loans for the chaebols (B.-S. Choi, 1991, pp. 249–252). Park did not respond to this, and the biggest obstacle to economic stabilization was exactly the president, who did not acknowledge the failure of his economic policy. In March 1979, however, Park finally ordered the DPMMEPB to come up with stabilization measures for long-term economic growth.

On April 17, 1979, the DPMMEPB Shin Hyon Hwak announced the *Comprehensive Measures for Economic Stability* (CMES), which included that:

1) The government would complete the price deregulation process which is underway as quickly as possible and step up import liberalization so as to straighten out supply-demand imbalances.
2) It would correct imbalance in investments in a way that more investments would be made in light industrial sectors producing

[22] Under the Yushin constitution, the president was elected indirectly by the electoral college. In this sense, general elections were a real index of public support for Park.
[23] However, Park never give up his growth-oriented policy because he did not dismiss the officials in charge of the HCI drive and appointed Nam Duck-woo, the former DPMMEPB, as his economic advisor (Chung, 1994, p. 106).

essential commodities and necessities.

3) In order to cool down excess investment demands, the government would temporarily suspend all new, large-scale projects and restructure heavy and chemical industrial investments. And for this purpose, the investment projects coordination committee would be established under the DPM.[24]
4) The government would tighten its monetary policy. Meanwhile, it would examine management of preferential policy loans and launch financial sector reform for its efficiency.
5) The government would continue to enforce the ban on real estate speculation in an effort to promote savings and sound economic behavior. (B.-S. Choi, 1991, p. 257)

The CMES were very meaningful because technocrats working at the planning ministry launched neoliberal reforms from below within the framework of the DS.[25] Open to new ideas through cooperation with international organizations and studying abroad, the EPB had a firm belief in the direction of the free-market economy. Above all, the CMES represented a paradigm shift that would lay the groundwork for a transition from government-led economic growth to market-oriented economic stability.

However, it was not easy to change the past development path at a stroke. The Presidential Secretariat, the MCI, the MF, and the Ministry of Agriculture and Fisheries resisted the CMES; exporters, big businessmen, and farmers were also against the CMES infringing on their vested rights. The business circles noted that excessive stabilization measures were likely to cause panic. The FKI and other business associations claimed that the government had so far urged large firms to participate in the HCI plan and that it dealt a severe blow to the firms by forcing them to reduce investment overnight ("Sŏngjangp'ogi," 1979). In June 1979, Park

[24] The DPM refers to the DPMMEPB.

[25] According to Kang Kyong Shik, the then Assistant Minister for Planning in the EPB, when the EPB drafted the CMES, it did not study or review other countries' cases (K. S. Kang, 2010, p. 399).

restored preferential financing to export industries under the MCI's initiative when the DPMMEPB was abroad (H. Kim, 1999, pp. 279–280), and he was unable to give up his attachment to export-driven, growth-first policies.

In less than three months after the CMES were launched, the second oil shock also occurred. The doubling of the oil prices and the ensuing worst recession of the global economy left the Korean economy struggling with inflation. Due to the deteriorating balance of payments deficit, the CMES' import liberalization could not be advanced, and financial reforms and investment adjustment also saw no progress. Consequently, the stabilization measures did not work (K. S. Kang, 2010, p. 408). Along with the slowdown in the global economy, banks and chaebols suffered a high debt ratio due to over-investment in the HCIs. In October 1979, anti-Yushin protests took place in Busan and Masan, where labor-intensive small firms, the biggest victims of the HCI drive, were concentrated (Yi, 2008, p. 144). Ten days later, developmental dictatorship came to an end as Park was suddenly assassinated on October 26, 1979. The ensuing political uncertainty drove the Korean economy to the brink of ruin. In an unexpected power vacuum, General Chun Doo Hwan raised a military rebellion on December 12, 1979. The Korean economy was adrift amid rising unemployment, broadening current account deficits, high inflation, and inter-ministerial clash within the government.

In sum, Korea relied on the US aid, and its economy featured the ISI and patronage with chaebols in the 1950s. After the 1961 coup, however, Korea was born as a DS with high state capacity by building bureaucratic autonomy and productive cooperative relations between the state and chaebols under the protection of the president. However, in the 1970s, the president's direct intervention in economic policies and the increasing clandestine contacts with chaebols lowered state capacity.

In addition to these domestic factors, Korea was hit by an economic crisis with external shocks. Despite the EPB's efforts to overcome the economic crisis with stabilization measures, Park's death and the military coup cast a dark shadow over the entire Korean economy.

3.2 Turkey

3.2.1 The liberal period with limited planning

After the Great Depression, Turkey pursued etatism; accordingly, the state had played a central role not only as a regulator of economic activities but also as a producer in manufacturing and an investor in infrastructure. State economic enterprises (SEEs) complemented the private sector, which lacked large capital. This consolidated the state autonomy represented by the military-bureaucratic elites in the urban center vis-à-vis the rural periphery and laid the foundation of the authoritarian rule of the Republican People's Party (RPP) (Barkey, 1990, pp. 46–52; Birtek, 1985; Sunar, 1990, pp. 746–747).

After the transition from the single-party to the multi-party system in 1946, the anti-bureaucratic and anti-military Democrat Party (DP) came to power in 1950 with the association of large and medium-sized agricultural producers, workers, and businessmen (Waldner, 1999, 53). At first, the DP government was market-friendly and intended to encourage the private sector against etatism. Between 1950 and 1953, it was committed to liberal trade policies and incorporated Turkey into the US-led world economic order via agricultural exports. The world's high demand for grains during the Korean War allowed Turkey to be an exporter of agricultural products (Z. Aydın, 2005, pp. 28–29). In the early 1950s, Turkey enjoyed a boom as a member of the global economy earlier than Korea. Turkey, however, did not make use of this chance for sustainable economic growth: the short-lived export-driven strategy served the interests of the landowners and urban merchants constituting the DP coalition.

In 1953, the DP turned to the protectionist trade regime to increase the domestic demand and used import licenses, taxes on imports, and multiple foreign exchange rates (Nas, 2008, p. 19; Waldner, 1999, pp. 66–67). Paradoxically, the pro-business government limited the market, and the haphazard interventionism in the economy and frequent policy changes triggered confusion among businessmen (Buğra, 1994, p. 120). Unlike its earlier promise to sell SEEs to the private sector, the DP expanded the public sector by making it a political tool for elections (Waterbury, 1992b, p. 206).

At the time, the demand for planned economic development spread in Turkey. Like the Rhee regime in Korea, however, the DP leadership, hostile to economic plans, was committed to preserving mass coalition before elections rather than achieving long-term economic development through strategic planning of a pilot agency. Even though Turkey already had a competent bureaucracy, the DP government capitalized on "populism and patronage as the means, and state-assisted (agrarian) capitalism as the base, of party supremacy" (Sunar, 1990, p. 747). Furthermore, political leaders undermined the bureaucracy. A law legislated in 1954 made it possible to fire bureaucrats; thus, the Turkish bureaucracy was not insulated from political interests and deviated from Weberian bureaucracy (Buğra, 1994, p. 158).

When it came to the state-business relationship, the DP government did not shape institutional linkages with the business and distributed rents and favors to pro-government businessmen (Buğra, 1994, p. 121). Created in 1950 by the RPP as an umbrella organization of businessmen, the Union of Chambers of Commerce and Commodity Exchanges of Turkey (TOBB) was friendly with the pro-business DP. However, the TOBB was a government-controlled rather than a purely private organization representing the interests of private entrepreneurs (Biddle & Milor, 1997, p. 288). In 1958, the DP government granted the TOBB public functions such as the allocation of import quotas to individual importers and the registration and control of imported goods. In the same year, the DP government interfered with the TOBB's electoral process, with the TOBB being obliged to uphold government policy (Buğra, 1994, pp. 241–242). In the absence of a pilot agency to plan economic policy and a peak association represented by the private sector, no institutional channel existed between the government and businesses (Süzer, 2001, p. 26). For the latter, only rent-seeking activities prevailed in an uncertain economic atmosphere, and the state capacity of Turkey was low.

Until the mid-1950s, the DP government did not stop pro-agricultural policies by increasing government spending, which caused fiscal deficits and inflation, even though the US (its aid donor) advised on stabilization. As the industrial sector was neglected, industrialists' discontent with the DP government rose; hit by inflation, workers also turned their backs on the DP government (Sunar, 1990, p. 752). Inflation and the overvalued Turkish lira reduced Turkey's agricultural exports, thereby exacerbating the balance of payments deficit. Despite the need for devaluation, the DP government did not depreciate the Turkish lira because it would damage the DP coalition (Waldner, 1999, p. 116).

In August 1958, the DP government was unable to pay its foreign debts and reluctantly agreed with the IMF to a stabilization program including devaluation (Barkey, 1990, pp. 54–55). Amid the economic crisis—albeit belatedly—the DP government drafted a debatable development plan under the proposal of the Organization for Economic Cooperation and Development (OECD) (Buğra, 1994, p. 128). Despite the IMF’s intervention, however, the economic situation deteriorated, and political and social unrest continued. On May 27, 1960, the DP government was ousted by the military coup (Pamukoglu, 1990, pp. 86–87).

3.2.2 The beginning of planned industrialization

Imbued with etatist legacies, the coup-makers and state bureaucrats regarded the planning as the best way of solving urgent economic issues and of preventing the recurrence of economic mismanagement during the DP government. In contrast, small and medium-sized enterprises and the agricultural sector was not in favor of the planned ISI (Ünay, 2006, 68). The 1960 coup opened an era of “national developmentalism and ISI-based strong protectionism of the domestic market” (Öniş, 2010, p. 48). As a result, the State Planning Organization (SPO) as a pilot body was created.

The SPO under the Prime Ministry was stipulated as a constitutional apparatus in the 1961 constitution. The SPO would formulate, implement, and sometimes revise ambitious long-term economic plans and annual investment projects. For final approval, the plans would be sent to a High Planning Council composed of the prime minister, the SPO, and relevant ministers (Barkey, 1990, p. 66; Okyar, 1979, p. 333). The SPO’s Five-Year Development Plans envisaged a mixed economy in which the SEEs provided the private sector with intermediate goods, while the private sector produced consumer goods under high protection in the early stage of the ISI[26] (Altunışık & Tür, 2005, p. 73; Pamukoglu, 1990, p. 90). However, the private sector's opinion was hardly reflected in the policymaking process of the Five-Year Development Plan.

The SPO did not have bureaucratic autonomy as a pilot agency, unlike Korea's EPB. In Korea, developmental goals were crystallized by the EPB, even after the coup leader, Park, took office as the president. On the contrary, the SPO's authority was short-lived because multi-party politics restarted in 1961. The SPO collided with the prime minister and politicians over economic policies; political leaders did not share development goals with the SPO and did not shield the SPO from political pressures. In the High Planning Council or through informal channels, politicians opposed and thwarted the SPO's industrial policies. In addition, the SPO was not capable of funneling capital to industrialization (Milor, 1989, pp. 167–174). Therefore, the SPO's bureaucratic autonomy was undermined by politicians serving agricultural and commercial interests inimical to industrial capital accumulation. To achieve an annual growth rate of 7%, the SPO attempted to undertake land and tax reforms to finance the new Five-Year Development Plan; however, such reformative actions were rejected by the then political leadership. In turn, the developmental technocrats collectively left the SPO in October 1962 (Batur, 1998, pp. 155–156).

In the second half of the 1960s, the Justice Party (JP), the successor party to the DP, came to power. As the JP leadership distrusted economic planners, there was a continuous discord between the SPO and other ministers in the High Planning Council; consequently, the SPO's initial developmental objectives succumbed to the

[26] According to Hirschman, ISI begins at an easy stage of producing final consumer goods and sequentially moves on to an advanced stage of producing intermediate goods via backward linkage effects (Hirschman, 1969, p. 6).

particularistic interests of politicians (Batur, 1998, p. 194). Besides, the SPO was at odds with other ministries within the bureaucracy. Putting economic growth first, the SPO clashed with the MF, which valued economic stability, and had issues with other implementing agencies (Ünay, 2006, p. 108). The SPO was not superior to other ministries. While Korea's EPB had hierarchical primacy over the MF by controlling both planning and budget function, the SPO could not direct the MF because the MF oversaw the budget (Dalgic, 2012, p. 220). With the resignation of the economic planners and subsequent personnel changes in high echelons, the SPO lost its original coherence (Batur, 1998, pp. 183–184).

The JP government appointed Turgut Özal (hereafter Özal) Undersecretary of the SPO. Pro-business and anti-planning Özal and his staff attempted to weaken the SPO's bureaucratic autonomy by converting its function "from macro planning to a subservient collaboration with the private sector" with the establishment of the Incentive and Implementation Department inside the SPO in 1968; moreover, they neutralized developmental planners in the bureaucracy (Dalgic, 2012, pp. 222–223).

In a situation where political leadership did not empower the SPO, there was no consensus on industrialization between economic technocrats and businessmen in the early 1960s. The former did not trust and did not embrace the latter, who were complacent about the rents of the ISI, while the latter were concerned about the radicalization of leftist technocrats in the SPO. As a result, the business world was inclined to the center-right coalition of the JP (Sunar, 1990, p. 754). In the JP government, clientelism appeared again (Heper & Keyman, 1998, p. 264), and although the JP administration valued the private sector, the business community was excluded in the course of economic policymaking. The problem is that the private sector per se was not cohesively organized. The government's control over the

TOBB was relatively eased, and the TOBB could appoint a secretary-general by itself. As the DP had done in the 1950s, the JP government met and talked with only members of the TOBB who were friendly with the government, but inflicted disadvantages on those who opposed it (Heper, 1991b, pp. 15–16). In retaliation for the victory of a candidate, Necmeddin Erbakan, hostile to the JP, in the TOBB elections of 1969, the JP government deprived the TOBB of import licenses and registration functions and gave those privileges to the Ministry of Trade. As a result, Erbakan was replaced by a pro-government figure (Buğra, 1994, pp. 233–234).

The JP government controlled the TOBB and its associate chambers, whereby the TOBB was politicized. In Korea, chaebols united around the FKI—the peak association by which they delivered a unified voice to the government. However, the Turkish business community was internally divided: the TOBB, a nominal peak business association, was not a pure private organization and was a place where industrialists and merchants competed over the rent-seeking. The TOBB fragmentized its members by representing the interests of small and medium-sized merchants more than those of industrialists (Waldner, 1999, p. 69). The cleavage between industrialists and commercial capitalists was so serious that the former individually contacted government officials for their own interests (Buğra, 1994, pp. 131–132). Therefore, a developmental alliance between the state and the business world for industrialization did not materialize in Turkey.

Nevertheless, ISI was effective in the 1960s. During the SPO's initial two Five-Year Development Plans from 1963 to 1972, annual GNP growth averaged around 6.8% as compared to 4.8% between 1953 and 1963 (Celâsun & Rodrik, 1989a, p. 621). The benefits of the economic boom of the 1960s were used to meet the demands of the various societal groups constituting the cross-coalition

(Pamukoglu, 1990, pp. 117–118). During the planned ISI, the share of agriculture in the economy decreased drastically, while that of consumer goods' industries grew. Turkey faced structural problems in the economy. The higher the ISI proceeded, the more dependent the Turkish economy was on imports of intermediate goods and raw materials to operate factories, which aggravated its foreign exchange situation (Krueger, 1995, pp. 347–348).

As in 1958, the OECD and the IMF pressured Turkey to institute stabilization at the end of the 1960s. Despite the opposition from a coalitional base, the JP government accepted the IMF-led devaluation program in 1970, which helped boost exports and draw emigrant workers' remittances in Western Europe to Turkey.[27] Despite the advantages of exports and the availability of foreign exchange, Turkey did not shift its development strategy to EOI, and the three years of rapid increase in foreign exchange earnings increased imports and foreign exchange reserves (Derviş & Robinson, 1978, p. 40). However, the JP government failed to respond to these inflows proactively, which caused inflation (Krueger, 1995, p. 348). On the political front, the JP government was not able to properly deal with the anarchical situation caused by the terrorism and the violence of left- and right-wing extremists. Finally, the military memorandum ended the incompetent JP government and Özal's attempt to establish a private-led economy in the SPO on March 12, 1971. An interim government was established under the command of the military behind the scenes (Hale, 2014, p. 119; Özbudun, 2000, pp. 33–35).

3.2.3 The collapse of import substitution industrialization

[27] After the 1970 devaluation, foreign exchange from workers' remittances increased from $141 million in 1969 to $740 million in 1972 (Derviş & Robinson, 1978, p. 42).

After the second military intervention, the interim government, consisting of many technocrats, sought to reinforce the administration and to implement social reforms from 1971 to 1973 (Özbudun, 2000, p. 34). As in the 1960 coup, it was again expected that the SPO, as a pilot agency, could discipline industrial capital toward long-term vertical industrialization (Batur, 1998, p. 321). The prospect of the Turkish economy seemed rosy: thanks to the inflow of workers' remittance, the current account registered a surplus in 1972 and 1973 (Celâsun & Rodrik, 1989b, p. 195).

To achieve industrialization and integration with the European Community, Turkey announced an ambitious long-term development strategy that aimed to deepen the industrial structure and to increase the per capita income from $320 to $1,500, raising the ratio of the industrial sector in GDP to 40% by 1995. This strategy was specified in the Third Five-Year Development Plan, and its detailed economic goals are as follows:

> 8.2. During the third planning period, the GDP would increase by 88 million Turkish lira. The production would increase at an annual rate of 4–4.5% in the agriculture sectors and 11.5–12.5% in the industrial sector. Thus, an increase in GDP of about 12% would be achieved from the agricultural sector, 36% from the industrial sector, and 52% from the productive growth of the service sector.
> 8.3. Within the industry, the manufacturing sector would grow at an annual rate of 11.5–12%. To make a change in the direction intended in the plan for the structure of the manufacturing sector, the output of the consumer goods industry during this period would increase by 6.5–7.5%, that of the intermediate goods industry by 14–15%, and that of the investment goods industry by 16–17%. The output of industries such as chemicals, steel, non-ferrous metals, machinery, and electric appliances in 1977 would be double the level of 1972.
> 8.4. The production of the mining sector would increase at an average rate of 15% per year, while energy production would increase at 13%.
> 8.5. The share of the industrial sector in the GDP would rise from 23% in 1972 to 27% in 1977 to make up 40% of GDP in 1995, while the share of the agricultural sector would decline from 28% to 23%. ("Kalkınma

Planı," 1972)[28]

Turkey started the final stage of ISI for "the deepening of the industrial base through vertical integration and extension of the industrialization process . . . toward . . . intermediate and capital goods" (Şenses, 1994, p. 52). For the industrial transformation, agricultural support prices and industrial wages would be reduced to supply more resources to big industries (Pamukoglu, 1990, p. 119). However, such a development policy could be only possible when political leadership could secure the bureaucratic autonomy of the SPO.

As shown in Table 1, after 1973, however, the coalition governments composed by ideologically heterogeneous parties and their frequent changes undermined the cohesiveness of the SPO and subordinated it to party politics (Özbudun, 2000, p. 36).

Table 1. Turkey's Coalition Governments in the 1970s

	Jan. 1974– Nov. 1974	Mar. 1975– Jun. 1977	Jul. 1977– Jan. 1978	Jan. 1978– Nov. 1979
Prime Minister (Party)	Bülent Ecevit (RPP)	Süleyman Demirel (JP)	Süleyman Demirel (JP)	Bülent Ecevit (RPP)

Whether center-left or center-right, each coalition partner occupied major economic ministries to give patronage to its cohorts, which resulted in "the absolute dissembling of the state apparatus" (Batur, 1998, p. 322); thus, it was impossible for the SPO to formulate and coordinate long-term developmental policies in the absence of its durable autotomy, which should be guaranteed from political leadership.

[28] My translation. See Appendix B for the original text.

As to the state-business relations in the 1970s, the business circles also took a new turn. Discontented with the JP and the TOBB, large-scale industrialists urged the interim government to deprive the TOBB of exchange allocation and gave it to economic ministries. On August 2, 1971, a small number of big businessmen established the private business association, the Turkish Industrialists' and Businessmen's Association (TÜSİAD) (Biddle & Milor, 1997, p. 287). In the diversification and deepening of industrial structure, big businesses had to play a key role, connected with the interventionist state (Amsden, 1994, p. 27). Although the TÜSİAD did not participate in the formulation of the Third Five-Year Development Plan, it was included in the government-business conference as a representative of the private sector under the interim government. The TÜSİAD presented policy alternatives to encourage private capital accumulation (Süzer, 2001, p. 69); even so, it did not mean that a cooperative channel between the state and businesses was established institutionally.

In the era of coalition governments, the SPO was not able to mobilize the private sector in industrialization and allocate investment resources to selective industries at its discretion. There was also a dispute among the economic ministries over their works in the jurisdiction. For example, the Minister of Industry intended to take control of the businessmen's problems concerning the annual program, leaving aside the SPO (Buğra, 1994, p. 160), which was unable to formulate and implement long-term policies for economic development or correct structural problems of ISI (Z. Aydın, 2005, pp. 38–39; Barkey, 1990, p. 104). The split private sector also sought only rents within the ISI regime as before; thus, the SPO's link with industrialists was far from institutionalized cooperation, which led to "a broadly particularistic favoritism, rather than developmentalism" (Ünay, 2006, 59).

The first oil shock and the ensuing global economic recession aggravated Turkey's foreign exchange position again. Moreover, the US embargo following the Turkish invasion of Cyprus in 1974 imposed more economic costs on the Turkish government (Z. Aydın, 2005, p. 39). Although the austerity measures to cover the balance of payments deficit would be reasonable, the Turkish government borrowed from abroad and depleted foreign exchange to maintain economic growth. The share of investment to GDP rose from 17.5% between 1963 and 1973 to 22.7% between 1974 and 1976 (Balassa, 1982, p. 39). At the same time, the Turkish government did not restrain the demand for oil by subsidizing the domestic price of gasoline, which adversely affected the balance of payments (Derviş & Robinson, 1978, p. 46). Additionally, decreasing workers' remittances to Turkey broadened current account deficits in the second half of the 1970s, as illustrated in Figure 3, and inflation rates rose steadily (Altunışık & Tür, 2005, p. 75).

Figure 3. Exports, imports, and worker remittances, 1970–1979 (in millions of $)
Note: Reproduced from *The state and the industrialization crisis in Turkey*, by H. J. Barkey, 1990, p. 95, Westview Press.

Deepening the industrial structure, the GDP growth rate averaged almost 6% per year until 1977. However, the second stage of ISI considerably accelerated the Turkish economy's dependence on imports in investment and intermediate goods, and it increased the capital concentration on inefficient industries (Barkey, 1990, pp. 88–89). In contrast to Korea, where the private sector was responsible for heavy and chemical industrial investment, the SEEs mainly invested in intermediate and capital goods industries in Turkey (Yılmaz, 2012, p. 355). Their low productivity and excessive employment generated inefficiency and big losses. In the post-1973, the protective ISI generated only "high-cost firms, below optimum size, working under capacity to share a limited domestic market, in many branches of industry" (Okyar, 1979, p. 343). Neglecting the improvement of quality and international competitiveness, the ISI ended up with the horizontal quantitative expansion. Thus, "the industry suffered from insufficient technological capacity, and the quality of finished products was well below world standards" (Waldner, 1999, pp. 184–185).

In addition to the failure of the industrial deepening, the rightist JP's coalition government implemented the wrong foreign exchange policy. To increase credit to the private sector, the coalition government used the Convertible Turkish Lira Deposit scheme to subsidize the private sector's foreign borrowing (Celâsun & Rodrik, 1989b, p. 196). As the current account deteriorated, foreign exchange reserves ran low, and the scheme came to an end. The current account deficits were financed by mostly short-term external borrowing, and after 1977, the debt service ratio increased from 14% in 1973 to 33% in 1977 (Balassa, 1982, p. 2).

After a severe debt crisis began in the mid-1977, Turkey defaulted on the interest payment and rescheduled its debt. On the advice of the IMF, stabilization programs were announced in 1978 and 1979, respectively. However, the IMF programs and SBAs failed to revive the Turkish economy because they were very late and reluctantly implemented by the RPP coalition government (Celâsun & Rodrik, 1989b, pp. 197–198). Most of all, the weak state was unable to coherently implement the stabilization programs prescribed by the IMF. The MF insisted on stabilization along with the IMF, while the SPO still adhered to achieve high growth via the Five-Year Development Plan. Both continued to be at odds with each other (Batur, 1998, pp. 351–352).

Externally, the second oil shock brought out a global recession, and the US interest rate hike exerted a negative influence on Turkey's terms of trade and debt service. Turkey was unable to make up budget and current account deficits by borrowing from foreign banks because new credit had been cut off. This accelerated foreign exchange shortages and economic slowdown; further, import restrictions to preserve foreign currency aggravated the shortage of commodities. The rate of inflation skyrocketed from 25% in 1977 to 52.6% in 1978 and 63.9% in 1979 (Z. Aydın, 2005, p. 40). With the economic crisis, rightists and leftists were in armed clashes in the late 1970s. The inflation rate posted 81.2%, and the GDP growth rate turned negative for the first time in the last 20 years (Nas, 2008, p. 25); nevertheless, the RPP coalition government could not contain inflation.

3.2.4 The transition to stabilization

The TÜSİAD once supported the first coalition government of social democratic RPP to control the radical leftist movements (Süzer, 2001, p. 70). Amid the worsening economic situation, however, the voice calling for fundamental reform of the Turkish economy erupted from the business community. The TÜSİAD acted against the second RPP coalition government.[29] Criticizing the problems of the existing ISI and insisting on a market economy, it carried on a public campaign for an economic change against the RPP coalition government, lukewarm to economic reform (Arat, 1991, pp. 140–141; Buğra, 1994, p. 142).

After the RPP lost the general elections, the JP's minority government was formed in November 1979, and Prime Minister Süleyman Demirel decided to initiate far-reaching economic policy measures for both stabilization and structural adjustment by accepting the advice of the IMF and international creditors (Krueger & Turan, 1993, p. 351). Demirel appointed Özal as the Undersecretary of the Prime Ministry and the Deputy Undersecretary of the SPO and entrusted Özal with economic reform. Özal abandoned estatist Five-Year Development Plans de facto and thought that the SPO should be restructured. Accordingly, Özal first removed leftists and statists inside the SPO who would oppose the impending austerity program and centralized the economic policymaking process under his control (Batur, 1998, pp. 363–373).

Excluding the key economic ministries such as the MF, the SPO, and the Central Bank, Özal prepared for the reform package only with a small number of his cadre that had experience in international financial organizations and American universities (Ünay, 2006, 68). He obtained prior consent from the military on the policies he would implement (Krueger & Turan, 1993, p. 356). To redress imminent inflation and debt problems and eventually transform the Turkish economy from the inward-looking into an export-oriented one, he announced stabilization measures on

[29] Compared to other business associations, the TÜSİAD was homogeneous because it was usually organized by a handful of large holding companies mostly based in Istanbul. Therefore, the TÜSİAD could act effectively vis-à-vis the government toward common goals by using abundant financial means and international links (Krueger & Turan, 1993, pp. 345–346).

January 24, 1980.

The so-called *January 24 Decisions* included a devaluation of the Turkish lira against the US dollar by 48.6% beyond IMF demands. Özal and his economic team recognized the problems of ISI and the low ratio of exports in national income compared to other developing countries (Aricanli & Rodrik, 1990, p. 1345). Along with the steep devaluation, incentives and tax exemptions were granted to exporters, and import licenses and foreign exchange allocations were also simplified. On the financial side, bank interest rates were liberalized in the direction of reflecting the market rates on deposits and loans, thereby raising interest rates sharply (Barkey, 1990, p. 176). The programs were conducive to a SAL from the World Bank in March, SBA from the IMF in June, and rescheduling with foreign commercial banks (Conway, 1987, p. 41). Moreover, the programs were to steeply raise the price of SEEs' products and services "ranging from 45 percent for gasoline to 300 percent for paper and 400 percent for fertilizer against the backdrop of 70 percent inflation" (Celâsun & Rodrik, 1989b, p. 201). This was to reflect their costs on the SEE prices and to reduce public sector expenditures together with real wage squeeze (Aricanli & Rodrik, 1990, p. 1345).

Through the January 24 Decisions, under the auspices of the IMF and the World Bank, Turkey could avoid foreign exchange shortages and lessen distortions in resource allocation of the public sector (Balassa, 1982, p. 49). Nevertheless, JP's minority government lost its capacity to enforce the stabilization programs. Özal tried to put the MF under his control to speed up economic policy decisions; however, he failed to do it and caused the MF's resistance against him (Batur, 1998, p. 378) and a huge backlash from the society. The TÜSİAD supported tight monetary programs prescribed by the IMF (Krueger & Turan, 1993, p. 360). However, the stabilization killed the domestic demand and added financial difficulties for small and medium-sized businesses, which heavily relied on the domestic market and could not afford high interests (Barkey, 1990, p. 178). Meanwhile, parliamentary politics failed to function properly in electing a new president, and Özal's reform package could not go ahead in social and political unrest. Then, the military put an end to a period of fragile coalition governments on September 12, 1980 (Zürcher, 2004, pp. 263–269).

In sum, Turkey's economy was characterized by haphazard economic policies, protectionism, and clientelism in the 1950s. The first coup in 1960 was a critical juncture to transform Turkey from a weak into a strong state based on the bureaucratic autonomy of the SPO and cooperative relations between the state and businesses. However, Turkish political leaders did not have long-term development goals, did not entrust economic policy to the SPO, nor did they protect the SPO from external pressure. The center-rightist JP's political leadership distrusted the bureaucracy like its predecessor, the DP, undermined the SPO's bureaucratic autonomy, and exacerbated patronage politics in the 1960s. The second coup in 1971 provided Turkey with another turning point to reorganize economic policies around the SPO for industrial deepening. Yet the emergence of coalition governments resulted in further infringement of the SPO's autonomy and cohesion required for the success of long-term economic policies. As to state-business relations, the government-controlled TOBB were unable to influence economic policymaking, and the business world per se continued to be divided. Subsequently, the limit of ISI and external shocks brought about the economic crisis, the solution to which came from outside the SPO. In connection with the IFIs, Özal announced a groundbreaking stabilization program in January 1980. When this seemed to fail amid political and economic turmoil, the coup d'etat in September of the same year became a new variable in the economic policies that Özal pursued.

3.3 Comparative analysis

Thirty years of political-institutional settings, industrial structures, and the interaction among political leaders, economic policymakers, and businessmen created the different paths to industrialization for Korea and Turkey. However, both encountered economic crises triggered by a combination of external shocks with the unsustainability of the domestic economies in the late 1970s.

In the 1950s, Korea and Turkey were weak states. Political leaders did not have long-term goals for economic development and had a negative view of economic planning. Although competent technocrats already existed, Korea and Turkey did not have autonomous pilot agencies under party-centered political contexts. Moreover, the state-business relations showed a form of rent-seeking coalition; thus, the two countries lacked the necessary conditions for state capacity. Yet the 1961 coup in Korea and the 1960 coup in Turkey were critical junctures that could lay the institutional foundation for improving state capacity. Both countries created pilot agencies and initiated planned industrialization through state intervention in the early 1960. However, the development strategies and institutional structures of the two countries were completely different from each other, which accounts for their different development paths up to the late 1970s.

Korea switched to a DS in the 1960s. Unlike the existing literature on the DS, however, the Korean case demonstrates that bureaucratic autonomy is not given a priori but is made institutionally. Bureaucratic autonomy depends on whether political leadership places economic development as the top priority, how much the leader trusts and gives carte blanche to a pilot agency or an economic team composed of well-trained technocrats in the economy, and how long the relationship between political leadership and economic technocrats can be institutionally maintained. In this background, President Park shared the development goal with the EPB, entrusted it with economic policies, and protected it from external pressure. Accordingly, the EPB with high autonomy and hierarchical primacy could formulate the Five-Year Economic Development Plans and coordinate economic policies with other ministries of economy. Accordingly, the EPB was a super-ministry de jure and de facto.

Concerning state-business relations, Korea reveals a paragon of embedded autonomy. Under the state's control of the capital, the state was able to effectively mobilize businesses for export and industrialization and disciplined the allocation of incentives according to their performance. Based on the absolute superiority of the state, the government institutionalized channels with the private sector—such as monthly export promotion meetings—and included businesses in the policymaking process. The chaebols leading the Korean economy delivered their concerted opinions to the government through the FKI—its peak business association. As a result, a developmental alliance between the state and the business was born in the 1960s.

The existing studies on the DS assume the state as a single entity and underline the role of the EPB, the pilot body. However, the status of the EPB was not fixed but flexible. Competition and conflict existed between the EPB, the MCI, and the MF. In the 1970s, the bureaucratic autonomy of the EPB was weakened by the Presidential Secretariat. Given the authority of the pilot agency could be contingent on the political leader's intentions, the authority of the EPB was volatile. Contrary to the conventional wisdom of a DS, the HCI drive in the 1970s reveals that the political leaders' will overwhelmed the technocrats' opinions, and the pilot agency that failed to share policy goals with the leader was excluded from economic management.

During the HCI drive in the 1970s, the DS's capacity varied. President Park had a long-term developmental goal but did not share it with the EPB. The president and the Presidential Secretariat directly intervened in the economy by sidelining the EPB. As the EPB faltered, the institutional structure in economic affairs became competitive and inefficient. Embedded autonomy in the 1970s also deteriorated in that chaebols met with the president individually to gain interests by circumventing their peak associations and related ministries. As a result, state capacity reduced, whereby the Korean economy became vulnerable to international shocks and could not respond to the upcoming economic crisis quickly. Therefore, a political leader's direct intervention and too much detailed supervision in economic policies could violate the expertise and autonomy of a pilot organization and in turn incapacitate state capacity.

Turkey looked like a strong state vis-à-vis society in the 1960s and 1970s, also establishing the SPO just after the 1960 coup and moving toward a planned ISI. However, the Turkish case indicates that the competent pilot agency per se was useless without the backing of political leadership devoted to long-term economic development. The SPO was neither trusted by political leaders nor protected from outside pressure; thus, its autonomy and coherence were violated by the particularistic interests of political elites. Institutionally, the SPO also failed to play a role worthy of its name as a pilot agency because it did not have policy instruments to coordinate economic policies with other ministries, which is a significant difference with the EPB. Although the EPB was debilitated by the political leader, its Weberian features and policy direction did not change, and its cohesiveness was maintained in the 1970s. On the contrary, the SPO experienced frequent personnel shifts whenever the governments changed.

In the relationship between the state and the business world, the Turkish governments did not include businesses in the policymaking process, even though they were pro-business governments. Unlike Korea's FKI, Turkey's TOBB was not independent of the state and was also too internally split to aggregate and articulate their opinions. Accordingly, cooperative partnerships for economic development between the state and the business did not emerge in Turkey. The SPO or any other state apparatus without bureaucratic autonomy and cooperation with business circles dared not rectify the structural problems of the ISI.

Finally, as far as state capacity is concerned, the EPB—the core of the DS—prepared an ambitious plan from below to shift the paradigm of economic policy toward neoliberalism without outside support or interference and initiated stabilization. This is different from other developing countries' introduction of stabilization programs with the advice or coercion of IFIs. The EPB, unlike other economic ministries, was not related to any interest group in society; thus, the scope of its policy choices was relatively wider and highly flexible. The EPB grasped the flaws of the heavy and chemical industrialization of the 1970s and took the lead in seeking innovative solutions. In contrast, the SPO—the center of economic planning—was too weak to draft a stabilization plan by its own efforts. Thus, Özal and a small number of his cadre outside the bureaucracy could draw up January 24 Decisions in consultation with the IFIs, excluding key state agencies.

Korea and Turkey, on different paths for economic development for nearly two decades, responded to economic crises through stabilization measures, but these were driven to the brink of failure in political and economic chaos. Coincidentally, military coups in both countries emerged as significant variables in the management of economic policies. Chapter 4 studies by whom and under what political-institutional circumstances the two dissimilar countries' economic policies converged on neoliberalism in the early 1980s.

CHAPTER 4

CONVERGENCE TOWARD NEOLIBERALISM

In Chapter 3, Korea and Turkey stepped on nearly 20 years of contrasting developmental paths under different political-institutional backgrounds and then encountered economic crises and military coups. Chapter 4 examines the two countries converged into neoliberalism in the early 1980s. To understand the so-called convergence amid divergence, Chapter 4 analyzes the Korean and Turkish architects of neoliberal reforms under illiberal regimes and studies their relations with political leaders, traditional bureaucrats (who stuck to the state-led economic development strategy), and the business community from a comparative perspective based on the DS theory.

This chapter consists of three sections. The first section on Korea focuses on economic stabilization and liberalization in the early 1980s after the 1980 military coup, and it specifically explores the newly established alliance between neoliberal technocrats and the president, financial supports from the IFIs, economic policies toward free-market economy, resistance from traditional bureaucrats, and the state-business relations. The second section on Turkey pays attention to Özal's economic stabilization and structural adjustment as a technocrat under the military rule, financial assistance of the IMF and the World Bank, Özal's neoliberal transformation as a prime minister after 1983, and the relations between the government and big businesses. The last sector reviews the first and second sections and evaluates the neoliberal convergence between Korea and Turkey that took place in the early 1980s.

4.1 Korea

4.1.1 The triumph of stabilization

After the success of the military rebellion, Chun Doo Hwan (hereafter Chun)'s first coup, on December 12, 1979,[30] putschists emerged as the most powerful political force. While this new military group had to work on the power struggle at the time, economic policy was entirely up to technocrats during the economic crisis (Yi, 2008, p. 92). The interim government formed a new cabinet on December 14, 1979. Shin Hyon Hwak, who had announced the stabilization measures in 1979 as the then DPMMEPB, was appointed Prime Minister, and Lee Hahn-been, a technocrat who had graduated from Harvard Business School in the US and was favored by the international financial community, was selected as the DPMMEPB (Clifford, 1994, p. 173). Thus, the EPB directed economic policies again instead of the Presidential Secretariat.

At that time, Korea's economic indicators were the worst; the balance of payments deficit, in particular, was attributed to the increasing foreign debt. This stood at $10.5 billion at the end of 1976 but increased to $14.9 billion at the end of 1978, $20.5 billion at the end of 1979, and $37.2 billion at the end of 1980. At the time, Korea became the world's fourth-largest foreign debt holder after Mexico, Brazil, and Argentina. Unless the current account improved dramatically, the vicious circle of having to obtain debt to pay off interest was bound to continue (Chŏn'gyŏngnyŏn, 2001, p. 474).

The interim government maintained the EPB-led stabilization policies. Although the MF and the MCI agreed on short-term stabilization, both ministries

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[30] This rebellion took place when General Chun's private society, *hanahoe*, arrested the Army Chief of Staff without the sanction of then President Choi Kyu Hah of the interim government. Chun took the initiative in the military.

expressed reluctance toward mid- and long-term economic liberalization. The MCI still did not give up the HCI drive (Rhee, 1994a, pp. 134–135). To restore Korea's creditworthiness, the interim government initiated a shock therapy on January 12, 1980 by depreciating the Korean won to the US dollar by 19.8% for the first time since 1975 and by raising the lending interest rates of export credits by 6% (Yi, 2008, pp. 94–95). The MF opposed the EPB's policy, calling the shock therapy an overkill on the economy (Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, p. 244).

Nevertheless, the interim government adopted a more floating exchange regime, in which the Korean won, vis-à-vis the US dollar, was to be set by the fluctuation of a currency basket and other external factors (Clifford, 1994, pp. 174–175). Furthermore, the interim government raised oil prices by 59.4% to respond to the second oil shock (K. S. Kang, 2010, p. 612). In a situation in which foreign capital inflows had to cover the deficit in the balance of payments, the EPB's policy direction was consistent with the prescriptions of the IMF and the World Bank, such as financial tightening, large devaluation, a flexible exchange rate system, and a wide-ranging energy policy. As a result, the interim government was able to sign the first one-year SBA with the IMF in March 1980, whereby Korea's stabilization efforts could continue under the financial support of the IMF (Aghevli & Márquez-Ruarte, 1985, p. 5). As illustrated in Table 2, the IMF approved three SBAs totaling Special Drawing Rights (SDR), amounting to 1.79 billion for Korea's stabilization in the first half of the 1980s.

Table 2. IMF's SBAs for Korea in the 1980s (in thousands of SDRs)

Facility	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn
SBA	03/03/1980	02/12/1981	640,000	320,000
SBA	02/13/1981	02/12/1982	576,000	576,000
SBA	07/08/1983	03/31/1985	575,775	575,775

Note: Adapted from *History of Lending Arrangements*, by IMF, 2008 (https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberkey1=550&date1Key=2008-09-30).

Business associations strongly criticized the stabilization programs featuring the high-interest rates and the curtailment of policy loans and insisted on easing the financial squeeze ("Kiŏp," 1980; "Kŭmni," 1980). In particular, the FKI, the biggest beneficiary under the Park regime, struggled to pay back their growing debts after investing excessively in heavy and chemical industries. It announced that it would participate in the government's economic policymaking process by strengthening its research function for the private-led economy ("Chaegyebip'ane chaguch'aeksŏnŏn," 1980). Then, the FKI pushed ahead with the establishment of the Korea Economic Research Institute, which was comparable to the state-run think tank KDI, to make its own policies and to influence the government's policymaking (D.-R. Hong, 1997, p. 20).

Amid constant economic instability, on May 17, 1980, the coup leader Chun declared full martial law, his second coup, to seize power, opening the era of new military dictatorship. With the resignation of the cabinet of the interim government, the EPB's six-month stabilization fell into the mire again. As in Park's 1961 coup, Chun set up a military junta as the highest ruling body on May 31, 1980, leaving President Choi Kyu Hah a nominal role as head of state (Clifford, 1994, p. 163). Each subcommittee under the military junta was filled with colonels, middle-level bureaucrats dispatched from various ministries, and neoliberal economic technocrats who had planned the pre-coup stabilization measures. The new military forces sought to gain public support by punishing those responsible for the economic crisis. Chun and colonels blamed the corrupt wealth of chaebols under the Park regime, purged high-ranking government officials and journalists, and arrested trade union and student leaders. The military junta focused on erasing the legacies of Park's era and on building a welfare state through distributive justice (Haggard & Collins, 1994, p. 69).

However, the colonels' attempt to investigate chaebols was canceled due to the difficult economic conditions[31]; instead, the military junta urged the self-purification of the business community. The new military forces were unable to change economic policy direction arbitrarily because the IMF staff visited Korea to ensure that Korea's economic policies complied with the IMF's recommendations ("IMF hyŏbŭidan," 1980). Within the limits of the stabilization program supported by the IMF, therefore, the military junta had to solve the problem of over-investment in heavy and chemical industries. The initial relationship between the new military forces and chaebols can be seen through the industrial investment adjustment process. The military junta and big conglomerates gathered to arrange industrial investment, and these meetings were coercive and opposed to the market principle. The military junta unilaterally forced one business group to monopolize production in the industrial sector concerned.

However, large conglomerates objected to the state's intervention in

[31] Not all large corporations were free from the military junta's coercion. For instance, Dongmyeong Lumber Company, a conglomerate cited as a vicious enterprise by the military junta, had to donate all its assets to the state under the pressure of the new military forces.

investment adjustment and disobeyed its policy decisions. Under the tight monetary situation, the military junta could not get them to follow its decision through financial benefits as in the 1970s. To make disobedient chaebols bankrupt by ceasing policy loans would negatively influence many small and medium-sized subcontractors as well as foreign creditors and joint partners (Rhee, 1994a, pp. 153–167). Consequently, the military junta's investment adjustment ended in failure owing to the resistance of relevant conglomerates, which grew to the point of opposing the decision of the political power through their rising dominance over the national economy.

In contrast to the Park period, the relationship between the new military forces and the business world was not harmonious in 1980. According to the Central Intelligence Agency's report, Chung Ju-yung, the chairman of Hyundai Group and the FKI, was critical to Chun's economic policies and the military junta's coercive industrial restructuring. Chun and chaebols were distrustful of each other at the time (Office of East Asia Analysis, 1983, p. 22). The military junta tried to drive Chung Ju-yung, a recalcitrant chairman, out of the FKI; however, as a pure private association, the FKI frustrated the military junta by reappointing Chung Ju-yung as a chairman (K. Cho, 2015). Given that the state's decision was not necessarily reasonable, the business' checks on the state could supplement economic policies and advance the state-business relations in a balanced direction.

Despite the mutual antipathy, the state and businesses needed each other to survive, and the FKI and other business associations had Chun as a new leader of the state ("Sahoegakkyedo," 1980). The business associations persistently proposed that the drastic increases in exchange and interest rates could worsen the financial structure of firms and weaken their export competitiveness. On September 16, 1980, therefore, the government announced limited and partial economic stimulus measures, including interest rate cuts and export support for the business within the scope of economic stabilization ("Samjunggogŭksohwa," 1980).

The EPB's market-oriented technocrats and the KDI's economists were concerned that the military junta would turn Korea into a closed and inward-looking economic system. Hence, neoliberal technocrats decided to present a market-led economic program to the new military elites, who did not understand the economy (K. S. Kang, 2010, p. 464). Among them, Kim Jae-ik, the director general of the planning bureau in the EPB, who had gained a PhD in Economics from Stanford University in the US and formulated the pre-coup stabilization measures, was appointed Chairman of the Subcommittee on Economic and Scientific Affairs in the military junta. Although Kim Jae-ik advocated stabilization and financial liberalization in the military junta, his ideas could not be materialized. The MCI, the MF, and the business circles told the military junta that Kim Jae-ik's neoliberal theory was not compatible with the Korean economy (K. S. Kang, 2010, pp. 450–452).

Nine months after the first coup, Chun took office as president in September 1980 and prepared for a new constitution stipulating a single seven-year presidency in which the president would be elected by an electoral college in a sports arena.[32] The new constitution was basically the same as Park's Yushin constitution in that it was characterized by a strong president, weak legislative and judiciary branches, and restrictions on political activities and the media (Haggard & Moon, 1990, p. 220). Thus, the first half of the Chun government was free from the pressure of the

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[32] The constitutional amendment was passed through a referendum in October 1980, and Chun was inaugurated as president again in March 1981 under the new constitution.

parliament and politicians, which gave President Chun absolute authority.[33]

Chun appointed Kim Jae-ik Senior Presidential Secretary for Economic Affairs (SPSEA). As a neoclassical economist, Kim Jae-ik had established a set of policies later known as the Washington Consensus. Convincing Chun to pursue stabilization, Kim Jae-ik reminded him that the government could encounter great resistance if the president followed his advice; however, Chun responded that Kim Jae-ik was the president of the economy (Yi, 2008, p. 8). Accordingly, the Presidential Secretariat exerted the most influence on economic policy. Most of the important policies were drafted or coordinated by the SPSEA and his secretaries in the Chun government. A former official said:

> The president's power was absolute. The president not only appointed ministers but also affected personnel affairs at the director level. Accordingly, the influence of the SPSEA, who reported to the president at a close distance, was greater than that of the ministers. (Former Official, personal communication, March 27, 2019)

In fact, the SPSEA took control of economic policymaking. Kim Jae-ik always reviewed complex economic issues in advance and suggested policies to the president, who accepted his suggestions and delivered them to the minister concerned (Chung, 1994, pp. 134, 138, 162).

Amid the economic crisis, politically illegitimate Chun could have chosen expansionary policies to gain public popularity instead of painful and unpopular stabilization. However, he had to cut off the past growth-oriented development strategy symbolizing the Park regime. The new military forces recognized traditional

[33] The March 1981 general elections were the elections involving only the ruling party and the opposition parties organized by the government.

bureaucrats as corrupt in the late 1970s and wanted to select fresh figures for a drastic policy shift. In this sense, neoliberal ideas were a good alternative for Chun's new government; therefore, Chun adopted economic stabilization and long-term structural adjustment. For the EPB, Kim Jae-ik's entrance to the Presidential Office was a golden opportunity to realize its policy through the new president because, as a former member of the EPB, Kim Jae-ik shared the same policy goals. According to Kim Jae-ik's advice, Chun announced that he would put all his energy into curbing inflation and shifting from a government-led economy to a private-led one. In a state of the union address on January 12, 1981, Chun said,

> [T]he government will devote its best efforts to stabilizing prices to speed economic recovery. Nothing hinders steady economic progress more than inflation. Stable prices will strengthen the competitiveness of Korea's export products, leading to greater foreign sales, which, in turn, will make sustained economic growth possible. . . . I want to underscore the government's resolve by declaring that price stability will be fundamental to all economic policies. . . . The government takes the position that the economy must, in principle, be run by private initiative. Only then will Korean business be able to gain greater resilience and display greater creativity, thereby acquiring the capabilities required to successfully compete on international markets. Only then will it be possible to resolve various contradictions bred by the past government-led economic system. But it is not practicable to convert the government-led system into a private-led system overnight. (Chun, 1981, pp. 14–15)

However, Kim Jae-ik still had many adversaries in the bureaucracy, the Presidential Secretariat, and the business circle. Traditional bureaucrats and businessmen against Kim Jae-ik visited Chun's other secretaries; then, the secretaries conveyed the grievances about Kim Jae-ik's policy to the president (Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, p. 97).

In return, to institutionally confirm the stabilization, Kim Jae-ik and the EPB inserted the keynotes of stabilization in the upcoming Fifth Five-Year Economic and

Social Development Plan,[34] so that it would not be withdrawn. Starting in 1980, the EPB formulated the Fifth Plan for economic management for stability, efficiency, and balance. The EPB introduced indicative planning to increase private participation and cooperation in the Fifth Plan. In the process of drafting it, policy consultation meetings were held with academia, business associations, private experts, and representatives from the society, with the aim to advertise the Fifth Plan to the public (K. S. Kang, 2010, p. 313).

In April 1981, Kim Jae-ik explained the Fifth Plan to other senior secretaries in the Presidential Office before reporting it to the president. After May 1981, on 10 occasions, the EPB gave Chun special briefings on the Fifth Plan, advocating cuts in export subsidies and policy loans, import liberalization, the guarantee of positive real interest, drastic fiscal reform, and the abolition of the dual grain price system. This triggered much controversy within the government and in various social sectors. However, Kim Jae-ik and Kang Kyong Shik, Assistant Minister for Planning in the EPB, persuaded influential figures in the government. At last, stabilization could be implemented as a national plan (K. S. Kang, 2010, pp. 454–455; H. Kim, 1999, pp. 287–288).

Further, Kim Jae-ik attempted to freeze the budget along with the introduction of zero-based budgeting. The 1984 budget was frozen in 1983 (D. Cho & Y. Kang, 2013, pp. 39–40), and the move was opposed by the ruling party because the 1984 budget freeze ahead of the general elections in 1985 would mean political failure. However, the president gave strong confidence to the budget office in the EPB and protected it from political pressures. The defense budget was also cut, even

[34] The adjective *social* was added to Economic Development Plan to reflect the change in the times.

though the Korean government should allocate 6% of the GNP to the defense expenses each year in accordance with an agreement stipulated with the US. Some generals' resistance was muted by the president (Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, pp. 307–343).

Following the government's budget freeze, the private sector also restrained wage increases in a situation in which trade unions were oppressed. To appeal to the public for the need for stabilization and resultant burden sharing, the EPB provided economic education to the entire nation via booklets, slides, and television programs. This economic education instilled the public into monetarism by repeating that austerity was good (H. Kim, 1999, pp. 310–314), thereby forming a national consensus on stabilization.

The purchase price of rice was a hot political and economic issue at the time. Before 1980, the price had been annually raised by political logic regardless of fiscal discipline. Despite the demand for an increase in the purchase price from the Ministry of Agriculture, Forestry and Fisheries and the ruling and opposition parties, the annual increase rate of the purchase price recorded 25% in 1980, 14% in 1981, 7.3% in 1982, 0% in 1983, and 3% in 1984 (Jang & Chae, 2015, p. 41). Chung Ju-yung also acknowledged the achievements of the price stabilization policy following market principles (M. Kim, 1983). Thanks to such stabilization efforts, Korea succeeded in lowering the rate of inflation to a one-digit level in 1982 for the first time since 1965 and heralded the end of the chronic high inflation economy in the first half of the 1980s (SaKong, 1993, p. 70).

4.1.2 Kim Jae-ik's radical neoliberal reforms

Along with stabilization, Kim Jae-ik at the Presidential Secretariat and the EPB as a reform team actively executed neoliberal transformation for the free-market economy, which implied a struggle over the initiative of the economy between the reform team and the other ministries and between the reform team and the business world. To establish a market-driven economic order, regulations on chaebols were needed. First, Kim Jae-ik and the EPB attempted to make the *Monopoly Regulation and Fair Trade Act*. Although the EPB had strived to control the concentration of chaebols' economic power and promote free competition since the 1970s, the legislative attempt was met with opposition from chaebols and pro-business senior officials. The EPB's bill would establish a Fair Trade Office under the EPB to supervise the activities of chaebols and rectify their unfair practices (Suh, 1992, p. 28). Despite the harsh opposition from the FKI, the MF, and the MCI, the bill was passed in December 1980 and became effective in April 1981 (Rhee, 1994a, pp. 154–155).

Then, the EPB endeavored to enact the *Industrial Assistance Law* to address over-investment and the imbalance between industrial sectors caused by industry-specific promotion laws in the HCI plan period. The EPB's bill aimed to promote investment in technology and human resources for the enhancement of international competitiveness. According to the bill, the EPB would head an Industrial Policy Deliberation Council and control policy instruments such as taxation, finance, and import regulations; however, the bill was aborted by strong resistance from the MF, the MCI, and the business circles benefitting from the existing law. After twists and turns in the process of legislation, the Industrial Policy Deliberation Council was established through Presidential Decree in December 1981. As a result, the MCI's authority in industrial policy lessened, compared to itself in the 1970s (B.-S. Choi, 1991, pp. 277–288; H. Kim, 1999, pp. 384–385).

Coupled with the IMF's two SBAs from 1980 to 1982 for stabilization, the World Bank's first SAL of $250 million and the second one of $300 million to Korea were approved in December 1981 and in November 1983, respectively. These loans supported Korea's liberalization in the finance and import regime. In addition to loans, the World Bank provided Korea with technical assistance for structural adjustment, especially for financial liberalization. Korea listened to advice from the IMF and the World Bank on economic policy, thereby maintaining constructive partnerships with these international financial organizations (SaKong, 1993, pp. 135–137).

Most government ministries agreed on economic liberalization in principle but disagreed on the pace and scope. The biggest obstacle for neoliberal reforms was the MF. In the period of the military junta, Kim Jae-ik's claim for the independence of the Central Bank and the abolition of policy loans had been thwarted by traditional bureaucrats from the MF (Yi, 2008, pp. 418–420). Kim Jae-ik intended to promote economic liberalization by using the MF in charge of finance and taxation. In January 1982, personnel transfers occurred in the upper echelons between the EPB and the MF. The Vice-Minister of Finance was appointed Vice-Minister of the EPB, while the EPB's Assistant Minister for Planning, Kang Kyong Shik, became Vice-Minister of Finance. After Chang Yeong-ja's curb market scandal,[35] in June 1982, Chun promoted Kang Kyong Shik to Minister of Finance and filled other key posts in the MF with neoliberal technocrats of the EPB. This unprecedented personnel shift

[35] Chang Yeong-ja and her husband falsely operated almost $1 billion worth of promissory notes in the form of lending loans to cash-strapped firms in the curb market. When they approached the firms, they traded on their connections with President Chun's wife. This scandal led companies, among which two large business groups, to bankruptcy.

between the EPB and the MF aimed to renovate the conservative atmosphere of the MF and spur financial liberalization (B.-S. Choi, 1991, pp. 293–294).

As soon as the EPB took control of the MF, Kim Jae-ik lowered general loan interest rates from 14% to 10% on June 28, 1982 because positive real interest rates could be guaranteed by price stability. The corporate tax rate dropped to 20% from over 30% (Yi, 2008, p. 233). This lowering of general loan interest rates eliminated the interest differential between ordinary loans and policy loans for some industrial sectors. The business community, who had been suffering from long-term austerity, was surprised and welcomed the bold move (Yi, 2008, p. 238). Reducing its control over credit allocation to the industry, the MF sped up the privatization of banks to promote competition among them and to strengthen their links with international financial markets. It authorized the establishment of nationwide banks by joint ventures with foreign capital and substantially removed entry barriers for non-bank financial institutions in insurance and security companies (Aghevli & Márquez-Ruarte, 1985, pp. 17–18; B.-S. Choi, 1991, pp. 303–304).

With regard to MF's partial financial liberalization, the business community was in favor of the privatization of banks and the reduction of the government's intervention in bank management. On the other hand, businessmen were cautious about the market-determined financial system that could bring about high-interest rates. All bureaucrats did not agree on the policies toward financial liberalization. Some of them did not want to lose their policy measures vis-à-vis chaebols (C. H. Lee, K. Lee, & K. Lee, 2000, p. 9).

With market-opening pressure from the US and Western Europe, import liberalization to make the domestic economy efficient and improve its international competitiveness emerged as a controversial issue. Although Korea was already incorporated into the global economy through EOI, Korea was lukewarm about liberalizing imports, except for inputs for exports. As in the financial sector, the MF taking charge of the tariff spearheaded import liberalization. The MF planned to promote import liberalization by reducing tariff rates and to simplify the import regime into the tariff system instead of the MCI's quantitative restrictions (B.-S. Choi, 1991, p. 306). In February 1983, the KDI, commissioned by the MF, insisted on introducing a uniform tariff rate of 8% and on achieving 97% of the import liberalization rate by 1986 at a seminar with the press. In response, the Korea Institute of Industrial Economics and Trade under the MCI rebutted it, saying that it would be premature for Korea to liberalize imports at a time when the international balance of payments was in the red (H. Kim, 1999, p. 331).

The inter-ministerial dispute over import liberalization took place at the Central Official's Training Institute. The Minister of Finance argued that the government should accelerate import liberalization to motivate competition and technology development and that the import liberalization ratio of Korea was 74.8%, compared to that of Taiwan at 97.7% and that of Japan at 97% (K. S. Kang, 2010, p. 548). The next day, in the same place, the Minister of Commerce and Industry said that radical import liberalization at this juncture would damage promising industries, advocating for gradual import liberalization to enable the industry to prepare for international competition—an argument that the business community supported. The FKI contended that the government should give adequate time for domestic companies to improve technology and financial structure. The Korea Chamber of Commerce and Industry and the Korea Traders Association agreed with the MCI's approach (B.-S. Choi, 1991, pp. 285–287). Particularly, Chung Ju-yung argued that it would be right to open the door to foreign countries after having Korean companies compete in the domestic market and that putting import liberalization first did not make sense (M. Kim, 1983).

Amid the controversy over economic liberalization, the Korean economy barely recovered despite remarkable attainments in price stability. Chun was thinking about a shift toward growth-oriented economic policies, and in July 1983, he appointed Suh Suk Joon, former Minister of Commerce and Industry, as the DPMMEPB. Suh Suk Joon was Kim Jae-ik's classmate at the Department of International Relations of Seoul National University and a former member of the EPB; however, he had been in a higher position than Kim Jae-ik at the EPB and was a traditional proponent of export-driven growth, disagreeing with Kim Jae-ik on economic liberalization (B.-S. Choi, 1991, pp. 320–321). In an interview with the press, Suh Suk Joon said that Korea was still a developing country with less than $2,000 GNP per capita and expressed the idea that Korea could reach the level of advanced countries only when achieving sustained growth (W. Choi, 1983).

The MCI, which came under attack from the EPB and the MF in import liberalization, enthusiastically welcomed its former minister's appointment as a DPMMEPB and expected Suh Suk Joon to stop import liberalization ("Sŏsŏkchun," 1983). Suh Suk Joon revised the Fifth Plan designed by neoliberal technocrats (B.-S. Choi, 1991, p. 292) and reversed the 1982 personnel reshuffle that had been directed by Kim Jae-ik's idea by sending the EPB's technocrats at the MF back to the EPB and vice versa (Yi, 2008, p. 431). In terms of the relations with the FKI, unlike Kim Jae-ik, who was at loggerheads with businessmen over his austerity measures, fair trade act, and rapid import liberalization, Suh Suk Joon had listened to the hardships of the businessmen and represented their interests when working at the MCI. As soon as a strong ally came back, the FKI set up a task force to coordinate import liberalization in association with the MCI ("Chŏn'gyŏngnyŏn suipchayuhwa," 1983).

However, no clashes took place in the tension between Kim Jae-ik and Suh Suk Joon because, when North Korea tried to assassinate President Chun during his visit to Rangoon, Burma (now Myanmar), Kim Jae-ik and Suh Suk Joon accompanying Chun were killed in a bomb attack in October 1983. President Chun was alive, but many ministers and vice-ministers of economic ministries died en masse (Yi, 2008, p. 437). Without Kim Jae-ik, Chun continued economic liberalization by appointing Kim Kihwan, the president of the KDI, who had earned a PhD in Economics from the University of California, Berkeley in the US and worked at the EPB, as Vice-Minister of Commerce and Industry. Kim Kihwan accelerated import liberalization by creating a yearly plan for tariff reduction and market opening that the MCI would carry forward until 1987. However, traditional bureaucrats in the MCI closely tied with the business circles implicitly resisted import liberalization. Kim Kihwan ordered the directors in the MCI to report which sectors and when they would be fully opened by the end of the 1980s, thereby moving ahead with this process (Y. H. Yoo & B. Kim, 2015, p. 26).

While opposing the government's control over the private sector on the one hand, chaebols wanted the government's protectionism on the other hand. The FKI suggested that the Chun government temporarily raise tariff rates, exempt tariffs on imported raw materials, and delay the timing of full import liberalization from 1986 to 1988 ("Pon'gyŏkchŏk suipchayuhwa," 1983). In the early 1984, however, the Chun government announced a five-year plan of import liberalization that would elevate its ratio from 85% in 1984 to 95% in 1988 and lower the average tariff rates from 22% in 1984 to 18% by 1988 (Aghevli & Márquez-Ruarte, 1985, p. 17).

It was natural for fierce disputes among relevant ministries to arise in the policymaking process. A former government official said that policy coordination eventually depended not on the logic of the argument but on the will of the president (Former Official, personal communication, March 27, 2019). Economic liberalization was decided by the president as a government policy for the national interest. Under Chun's authoritarian regime, it was not easy for businessmen to openly criticize import liberalization; although the business circles were dissatisfied with it, they had limitations in exercising their influence (Y. H. Yoo & B. Kim, 2015, pp. 28–29).

In sum, Chun's coup served as an occasion for the revival of neoliberal economic policy. Fully trusted by the president, Kim Jae-ik embodied his neoliberal ideas through good teamwork with the EPB; thus, the reform team consisting of the Presidential Secretariat and the EPB was able to rapidly pursue market-oriented economic policies despite opposition from traditional officials and chaebols. In terms of state-business relations, at first, the new military forces and big businesses were at odds with each other when adjusting industrial investment; however, the two sides, who needed each other for economic growth, then shifted to a cooperative relationship.

4.2 Turkey

4.2.1 Chasing two rabbits: Stabilization and export-led growth strategy

After the September 12 coup, the military deactivated the parliament, the cabinet, and political parties and suspended all political activities and radical union movements. Under the state of emergency, all power was concentrated in the National Security Council (NSC)—the supreme governing body comprising the Chief of Staff Kenan Evren (hereafter Evren) and four generals. The NSC declared

Evren head of state and announced a new cabinet headed by Bülent Ulusu, a retired admiral, on September 21, 1980. The cabinet was filled with bureaucrats, scholars, and former officers and aimed to advise the NSC and enforce its decisions (Zürcher, 2004, pp. 278–279). The military appointed Özal as Deputy Prime Minister responsible for economic affairs, the most prominent figure in the cabinet. As the economic crisis and the need to cooperate with the IFIs required Özal and his team, he was given autonomy in economic policy under the military rule.

Having once worked at the World Bank, Özal knew the mechanism of the IFIs, which trusted him (Aricanli & Rodrik, 1990, p. 1346). Özal claimed that the stabilization programs should continue for the Turkish economy. On the condition of tightening monetary policy, raising interest rates, and depreciating the Turkish lira (Foroutan, 1991, p. 444), the IMF unprecedently approved a three-year SBA amounting to SDR 1.25 billion—more than six times Turkey's quota—in June 1980 and two more SBAs by April 1984. As shown in Table 3, to support programs on the liberalization of the exchange rate and the finance and trade sectors (Foroutan, 1991, p. 446), the World Bank also provided five SALs amounting to about $1.6 billion to support Turkey's structural adjustment (Celâsun & Rodrik, 1989a, p. 671). For the World Bank's SAL, the Turkish government announced a Statement of Development including policy objectives, based on which the World Bank provided loans to Turkey with a specific timetable (Foroutan, 1991, p. 456).

Table 3. World Bank's SALs for Turkey in the 1980s

Loan	Date of Approval	Amount (in millions of $)	Disbursements to December 31, 1984
SAL 1	03/25/1980	200.00	200.00
Supplement	11/18/1980	75.00	75.00
SAL 2	05/12/1981	300.00	300.00
SAL 3	05/27/1982	304.50	304.50
SAL 4	05/23/1983	300.80	300.80
SAL 5	06/14/1984	376.00	250.00

Note: Adapted from *Structural adjustment lending: An evaluation of program design*, by F. Yagci, S. Kamin, & V. Rosenbaum, 1985, p. 56, World Bank.

In the context of the need for funding from international creditors, the military was not able to withdraw the January 24 Decisions including the requirements of the IFIs and in turn entrusted Özal with the economic policies, even although he had served during the previous government. Özal was able to implement economic reforms; he constantly deregulated interest rates on deposit to guarantee positive real interest rates and sought to decrease fiscal deficits by increasing the prices of the SEEs (Öniş & Riedel, 1993, p. 42). Additionally, while banning the layoffs of workers in the private and public sectors, the interim government froze its employment and kept wages lower than the rate of inflation (Kopits, 1987, p. 17; Öniş & Webb, 1992, p. 29). Agricultural support price was also curbed (Celâsun & Rodrik, 1989a, p. 669).

These austerity measures were feasible because the military rule suppressed workers and peasants. Consequently, the consumer price index, which had reached 110.2% in 1980, fell to 36.6% in 1981 and 30.8% in 1982 (Öniş & Riedel, 1993, p. 43). Stabilization contributed to the enhancement of Turkey's creditworthiness in the international financial community and to the constant inflows of new loans to Turkey from the IMF, the World Bank, and the OECD in the first half of the 1980s (Batur, 1998, p. 381; Şenses, 1988, p. 12).

Coupled with stabilization, export promotion was the key for Turkey to regain credibility in the international financial market. Hence, Özal continued to depreciate the Turkish lira in a flexible direction toward a crawling-peg exchange rate system on May 1, 1981. This aimed to make up the current account deficits by increasing exports. The availability of foreign currency enabled an export-led growth strategy to solve supply bottlenecks (Kopits, 1987, p. 27); moreover, exports were more facilitated by zero tariffs on imported raw materials and intermediate goods for exports. While holding a positive list and import licensing systems, the interim government eliminated the import quota list in 1981, whereby most imported items moved to the liberalized list (Öniş & Webb, 1992, p. 31).

As a part of the export-driven growth strategy, the government's institutional efforts were concentrated in the Foreign Trade Company (FTC) system, which had already been embodied in a government decree two months before the coup. Emulating the Korean and Japanese General Trading Companies, the FTCs aimed to generate economies of scale in marketing and to penetrate the highly competitive world market via export incentives (Öniş, 1992, pp. 75–76). The FTCs that exceeded the export targets specified by the law received many incentives; in particular, tax rebates were important instruments for promoting exports. With these institutional efforts, the share of exports in the GDP augmented from 4.2% before the 1980s to 8.5% in 1981 and 1982. The export promotion was the driving force behind Turkey's annual economic growth of 5% from 1981 to 1983 (Yıldırım, 2004, p. 67).

As to post-coup state-business relations, the TÜSIAD, which had advocated economic reforms in the late 1970s, supported the military coup and the new cabinet and expected that its policy proposals could be realized under military rule. Despite the ban on all interest groups at that time, the TÜSİAD was recognized as a legitimate organization for the public good, whereby its activities were permitted. Given that some members of the TÜSIAD were appointed ministers of the Ulusu cabinet, the TÜSIAD had close ties with the interim government. However, it failed to make a collective voice vis-à-vis the Ulusu government due to a clash of interests among its members—exporters and industrialists. Unlike exporters, who were institutionally sponsored by the state, domestic industrialists were exposed to competition without protectionism. Therefore, big industrialists opposed Özal's import liberalization (Gülfidan, 1993, pp. 93–95). Although the TÜSIAD appealed for the establishment of a council about economic affairs involving the government and the business, the Ulusu government did not accept its demand (Gülfidan, 1993, p. 101).

Other business organizations were also under the strict supervision of the relevant government ministries. In such a situation, the government could dissolve a chamber of commerce by regarding criticism of the government as a political activity (Kalaycıoğlu, 1991, p. 80). Since no institutionalized link existed between the Ulusu government and the business world in the policymaking process, industrialists and exporters contacted the government for particularistic favors through informal channels rather than their peak associations.

The military rule gave Özal greater leeway through which he was able to transform his ideas into policies. However, Özal's influence was temporary as it was unclear whether the military shared the same policy goals and how long they would trust him. Despite the international pressures on stabilization, the military did not like Özal's programs. Although Evren publicly announced that the military would stick to the January 24 Decisions a few days after the coup, he appointed Adnan Başer Kafaoğlu, an opponent of Özal, as an economic and financial advisor. Basically, Turkish generals had etatist views in the economic management and were disinclined to accept the free trade and market-driven economic system. On the lifting of price controls and import quotas and the liberalization of interest and exchange rates, the NSC and Prime Minister Ulusu disagreed with Özal (Yıldırım, 2004, pp. 64–65). As economic affairs centered on Özal and his team over time, Özal was a target of check and surveillance (Batur, 1998, pp. 382–384).

Moreover, the economic bureaucracy during the military regime was disintegrated over the initiative of economic policy. It was hard to coordinate the economic ministries without a pilot agency, primus inter pares. Traditional bureaucrats, who stuck to etatism, tried to slow down Özal's neoliberal reforms, and Özal had already predicted strong resistance to neoliberal restructuring from the MF inside the government. To control the Ministries of Finance and Commerce, he had accepted the post of Deputy Prime Minister in charge of economic affairs on the condition that traditional bureaucrats would not join the cabinet and had persuaded the NSC to appoint Kaya Erdem, who supported Özal's vision, as Minister of Finance (Batur, 1998, pp. 378–380).

However, bureaucrats in the MF disapproved of their new Minister Erdem, and the MF was split into groups championing and opposing Özal's reforms; particularly, the General Secretariat of Treasury criticized Özal's circle inside the MF. Economic ministries became the venue for a power struggle between traditional bureaucrats and Özal's cadre. In February 1982, Özal attempted to weaken the MF and the General Secretariat of Treasury through administrative reorganization. Nevertheless, this failed due to harsh opposition from traditional officials in the MF and Prime Minister Ulusu (Batur, 1998, pp. 382–387).

Despite the remarkable increase in exports, the severe economic recession and the high-interest competition among banks after the liberalization of interest rates in June 1980 placed a financial burden on small and medium-sized industrial firms, which did not have their own banks. A speculative boom seeking high interests increased bad debts in financial markets, and in June 1982, money brokers dealing in high-risk credit and corporate bonds went bankrupt (Celâsun & Rodrik, 1989b, p. 203). This so-called *Banker's Crisis* hurt Özal and his cadre. Major business groups urged the military to remove Özal from the cabinet because his economic policies did not reflect their interests (Waldner, 1999, p. 217). Facing mounting discontent with economic policies, Erdem and Özal were forced to resign. With the ousting of Özal, the devaluation that had persisted since 1980 turned into appreciation; the interim government eased austerity and no longer pushed for Özal's economic liberalization. (Öniş & Webb, 1992, p. 34). With banks being subject to strict regulations and discipline, interest rates were reduced and fixed again (Öncü & Gökçe, 1991, p. 114).

The MF took advantage of Özal's eviction to strengthen its power. Kafaoğlu took over as Minister of Finance[36] and tried to rearrange the financial system instead of pursuing financial liberalization; furthermore, Kafaoğlu meant to reconsolidate the MF's power through a legislative bill that would allow it to formulate and implement economic policies. In addition, he wanted to create his own team by internally reshuffling the MF. However, his attempts were thwarted by Prime Minister Ulusu and the remaining circle of Özal's collaborators (Batur, 1998, pp. 388–394).

[36] Kafaoğlu had refused to join the Ulusu cabinet as the Minister of Commerce because the Minister of Commerce was weaker than the Minister of Finance, Erdem (Batur, 1998, p. 388).

Just as Evren had promised a referendum on the new constitution in 1982 and general elections in 1983, the new constitution draft was prepared. It featured concentrating power in the hands of the administration and restricting the freedom of the press, trade union activities, and individuals. If the new constitution passed, Evren would automatically become president with a seven-year term (Zürcher, 2004, pp. 280–281). In the new constitution, however, the prime minister would be still stronger than the president: as the roles of the president and the Presidential Council would be limited to secularism and national security matters, respectively, they could not affect the government's operation (Yıldırım, 2004, p. 116). Circumventing the parliament, the governmental decrees having the force of law could be easily issued only by the Council of Ministers (Heper, 1990, p. 325). With the passage of the constitution by referendum, Evren resigned his military post as head of the NSC and took office as president. The other four military commanders of the NSC also retired from the military and joined a newly formed Presidential Council (Sayarı, 1992, p. 34).

In April 1983, the NSC permitted the formation of three new political parties to compete in the 1983 general elections and supported the National Democracy Party headed by a retired general. The other two parties were the Populist Party and Özal's center-right Motherland Party (MP). Without a traditional support base and organizational network as a political party, the MP was improvised by Özal and unified only by his charisma. The 1983 general elections were semi-competitive in that the military banned the pre-coup political parties and activities of their leaders. Özal claimed himself to be the right leader to curb inflation, boost exports, and continue economic growth as a new civilian alternative different from the pre-1980 etatist forces and the military (Yıldırım, 2004, p. 109). Contrary to the military's expectations, the MP gained 45% of total votes and the majority of parliamentary seats (Sayarı, 1992, p. 36).

4.2.2 The heyday of Özal's liberalization

The MP's victory in the 1983 general elections meant that Özal's economic stabilization and liberalization would continue again under his premiership, as stipulated by the 1982 constitution. Controlling the MP with powerful leadership and gaining high popularity among the public, Özal had tremendous discretionary power as a political leader and an economic tsar. He reorganized the government's structure and concentrated power in the hands of the prime minister; his office became "the real locus of economic decision making" (Öniş, 1998, p. 188) and oversaw all processes concerning the coordination of macroeconomy and the formulation and implementation of economic policies (Ünay, 2006, p. 71).

Özal distrusted traditional bureaucracy. First, he marginalized the role of the SPO, the MF, and the Ministry of Commerce, which had been the backbones of etatism. As the SPO's economic planning became insignificant with neoliberal restructuring, Özal transferred the SPO's well-trained technocrats loyal to him to the cabinet and the MP (Ünay, 2006, pp. 118–122). In Özal's cabinet, therefore, a third of ministers had worked with him at the SPO before the 1971 coup (Gülfidan, 1993, p. 96).

Institutionally, Özal created the Undersecretariat of Treasury and Foreign Trade (UTFT) affiliated to the prime minister as a headquarter of neoliberal reforms above other economic ministries. He appointed Ekrem Pakdemirli, who had earned a PhD in Mechanical Engineering from Imperial College in the United Kingdom and worked with Özal at the SPO, to the Undersecretary of Treasury and Foreign Trade.

As such, Özal's economic team consisted of engineers rather than economists, and it led free-market reforms (Dalgic, 2012, p. 124). The UTFT was not only intended to weaken the SPO but also to crush the MF, which had hampered neoliberal reforms during the military rule.[37] Decisively, the jurisdiction of public expenditure was handed to the new UTFT from the MF (Batur, 1998, p. 401); likewise, the Ministry of Commerce also lost its control over foreign trade (İlkin, 1991, p. 103).

With unprecedented political power, Özal and his team embarked on neoliberalization. Economic policy decisions at this time were based on economic rationality, which was different from past political and clientelist decisions. The MP government reduced control over the private sector (Heper & Keyman, 1998, p. 266). In December 1983 and January 1984, it revised import lists to negative from positive lists and drastically reduced the function of quantitative restrictions by adjusting tariff rates (Aricanli & Rodrik, 1990, pp. 1345–1346); in particular, the average tariff rate fell by 20%, the import procedure was greatly simplified, and import banned items also decreased significantly (Krueger & Aktan, 1992, pp. 23–24). With import liberalization, the SPO, which had dealt with import licensing, lost a major policy instrument.

On the foreign exchange regime, commercial banks were permitted to determine their exchange rates within a band set by the Central Bank (Kopits, 1987, p. 12). Turkish citizens were able to hold foreign exchange and open domestic bank accounts in foreign currency. The partial but substantial liberalization of foreign exchange transactions debilitated the MF in charge of foreign exchange (Öniş & Webb, 1992, pp. 35–36). In 1984, the MP government created the Board of Mass

[37] Özal had long thought that traditional bureaucracy like the MF hindered Turkey's economic development (Batur, 1998, pp. 226–227).

Housing and Public Participation Fund under the direct control of the prime minister. This fund was financed by special levies, and its revenue was used for government expenses without prior approval from the parliament and bureaucrats (Ahmad, 1993, pp. 190–191). This kind of extra-budgetary fund solved the Turkish government's enduring problem of increasing tax revenues in limited tax resources and strengthened the prime minister's discretionary power (Batur, 1998, pp. 401–402; Ünay, 2006, p. 73).

Along with economic liberalization, Özal imitated the DS's EOI, stating that Turkey was enthusiastically learning the growth and rapid development of Korea and that it would be useful to benefit from Korea's experience ("Güney Kore'nin," 1984). This statement indicated that the export drive would be pushed more strongly during his term; subsequently, in early 1984, the export license requirement and export price controls were abolished (Kopits, 1987, p. 11).

While the past governments had used tax rebates, export credit, and tariff benefits for imported intermediate inputs since 1980, the MP government turned toward the exchange rate as a policy tool to promote exports. In addition, it issued a decree modifying the qualifications for FTCs. Minimum export and paid-in capital requirements were expanded, and the ratio of mineral and manufactured exports was raised. Most of FTCs were linked with leading holding companies because the latter established the former for the marketing of industrial products.[38] These large holding companies wanted to maintain their dominant positions in the domestic market, while enjoying benefits created by the export-oriented economic system (Öniş, 1992, pp. 76–79).

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[38] Two leading FTCs, RAM, and EXSA, were established by the two biggest holding companies, Koç and Sabancı, respectively (Öniş, 1992, p. 78).

Besides, tax rebates and incentives for the foreign exchange given to FTCs helped ease the financial burden on the parent company (Öniş, 1992, pp. 82–83). For small firms, the FTCs played a role in linking small exporters and manufacturers lacking marketing ability to overseas markets and offered small firms an opportunity for cutting-edge technology transfers and new product development (Öniş, 1992, p. 94). As a result of the export promotion policy, annual export growth averaged over 30% from 1981 to 1984, after hitting 61.2% in 1981 (Kopits, 1987, p. 4), and the ratio of FTCs of total exports rose steadily from 13.6% in 1981 to 45.7% in 1984 (Öniş, 1992, p. 78).

Through the reorganization of the government ministries, Özal constructed the prime minister-centered power structure and insulated his economic team from outside pressure.[39] To improve state capacity, another puzzle was to what extent Özal and his team could build institutional networks with the private sector in the policymaking process. As to state-business relations, the TÜSIAD welcomed Prime Minister Özal at first because he was a former member of it as well as an executive in a big conglomerate, Sabancı Holding. In Özal's cabinet, 16 of 20 ministers had worked in the private sector; in this sense, the TÜSIAD had personal connections with the MP government. However, the MP government used this network as a tool to oppress the requests of big businesses (Arat, 1991, p. 144).

Even in the pro-business MP government, the business community did not play any role in the economic policymaking process. The MP government did not feel the need to institutionalize networks with business associations; above all, Özal

[39] Despite the centralization of economic power in the prime minister's office, there was institutional disintegration in the foreign trade regime. For example, tasks on exports and imports, foreign exchange, subsidies, and tariffs were assigned to the SPO, the UTFT, the Central Bank, and the MF (Buğra, 1994, pp. 160–161).

did not think of the business community as a policy partner with which to exchange opinions (Batur, 1998, p. 407). The TÜSIAD officially chose to follow rather than oppose Özal and his policies because much of the business activities were dependent on the government's decisions (Gülfidan, 1993, p. 72). For example, the MP government authorities punished the companies that had openly buttressed the MP's rival party in the 1983 general elections by banning them from television advertising (Buğra, 1994, p. 154). No channels with the parliament or politicians worked because the parliament was weak vis-à-vis the executive. The 1982 constitution restricted the activities of interest groups, and businessmen expressed their grievances and demands through individual contact with the MP government only after the policy was implemented. In the post-1983 regime, therefore, the state-business relations were characterized by a patronage network between businessmen and a small number of technocrats in the prime minister's office or, occasionally, Özal (Batur, 1998, pp. 407–408).

In sum, Özal and his team continued neoliberalization under the military rule and accelerated it in earnest after Özal became Prime Minister in 1983. With a firm vision of the economy, Özal concentrated policy decision structure in his hands through the reorganization of the state machinery and promoted EOI modeled after the DS. In the early 1980s, the MP government seemed stronger than any previous Turkish governments. The prime minister and his economic cadre made the state very autonomous from society and the rest of the bureaucracy, but the economic team did not have Weberian bureaucratic features. Despite close ties with the business world, the MP government did not establish a cooperative network with the business community; therefore, it was unclear whether Özal's Turkey would be able to possess high state capacity from a long-term perspective.

4.3 Comparative analysis

In the early 1980s, Korea and Turkey showed many similarities in their economic policies. Both countries were able to recontinue their stabilization measures, which had been implemented in the pre-coup period. Such policy choices were consistent with the conditionalities of the IMF and the World Bank, whereby the large scale of financial assistance was channeled to both countries. Coupled with external factors, the parliaments and societal groups were not strong enough to challenge their post-coup governments under commonly repressive political and social environments after the military coups in 1980. In such political and social environments, neoliberal technocrats like Kim Jae-ik and Özal emerged as economic architects and replaced traditional officials, who adhered to the state-led development strategies of the 1960s and 1970s. Neoliberalists ideologically tying with IFIs had considerable leeway in formulating and implementing orthodox reforms under the auspices of political leaders. These common elements in the early 1980s paved the way for the convergence of the two countries into market-oriented reforms.

Nevertheless, neoliberal policies were not implemented harmoniously in Korea and Turkey as both governments had to deal with friction and a struggle between the neoliberal technocrats and the traditional bureaucrats. Contrary to popular belief, the business communities of the two countries did not entirely welcome market-driven economic policies and were not allies of neoliberal reforms at first because Korean and Turkish businessmen still relied heavily on benefits derived from the past development models. Thus, the business circles of Korea and Turkey cooperated with or clashed with the states' policy decisions.

As in industrialization, bureaucratic autonomy is also key to boosting neoliberal reform. At a first glance, the EPB was revived and continued its stabilization programs; furthermore, it inserted its policy goals into the Fifth Five-Year Economic Social Development Plan, thereby stipulating the consistency of its reforms. However, the EPB did not achieve resurgence by its own power; after the 1970s, the real power of economic policies was in the Presidential Secretariat. Bureaucratic autonomy is not given, but it is the product of a vertical hierarchy centered on the president. Backed by the president, the Presidential Secretariat took the lead in economic policy and pushed economic liberalization through close teamwork with the EPB as an economic team. This contrasts with the conflict between the two sides during the HCI drive in the 1970s.

Thanks to Kim Jae-ik, trusted and protected by the president, the bureaucratic autonomy of the economic team greatly increased vis-à-vis the parliament, the MCI, the MF, and chaebols, whereby tight monetary policy and economic liberalization could be achieved. As for state-business relations, from the outset, the anti-chaebol Chun government was at odds with the business community in the early 1980s. Although Korea's authoritarian government still had the upper hand over the business circles up to the mid-1980s, the resistance of chaebols was indicative of a new change in the state-business relations of the DS.

Like Kim Jae-ik in Korea, Özal and his team could perform stabilization and structural adjustment in Turkey. For a short time, Özal was entrusted by the military with economic authority; however, Özal and his team were not as autonomous as Kim Jae-ik and the EPB. Unlike the Korean military elites, who were ignorant of economy, the Turkish military's unshakable etatistic view on the economy ousted Özal from the cabinet. However, as he became the prime minister, Özal no longer needed to gain trust from above as a head of government; with a long-term and sturdy faith in economic reforms, he centralized economic policy decisions in the hands of the prime minister, whereby his economic liberalization and EOI were implemented quickly. Newly created institutions filled with Özal's old colleagues were autonomous from society and other apparatuses within the state but lacked Weberian characteristics.

Besides, the establishment of a public-private partnership is essential for the improvement of state capacity and the success of economic reforms in the long run. Although the TÜSİAD had organic ties with pro-business Prime Minister Özal and supported his economic policies at first, dialogue channels between the state and business were not formalized because of deep-rooted distrust between the state and the business community. Economic policymakers did not want businessmen to participate in economic policies, and the business world was excluded from the economic policymaking process even in market-oriented reforms. Moreover, unlike Korea's FKI, Turkey's business associations per se were not homogenous and cohesive enough to deliver a unified voice to the state.

The combination of international assistance and the rise of neoliberal technocrats allowed the economic policies of Korea and Turkey to converge on stabilizing macroeconomic indicators and considerably liberalizing financial sectors and import regimes in the early 1980s. However, the progress of neoliberalism in Korea and Turkey could not continue to be similar because both countries confronted different economic issues on the way to neoliberal transformation and tried to resolve them in a different way. Chapter 5 examines the neoliberal divergence in Korea and Turkey from the mid-1980s to the late 1987.

CHAPTER 5

NEOLIBERAL DIVERGENCE

Chapter 4 demonstrated the convergence of economic policies on economic stabilization and liberalization by neoliberal technocrats in cooperation with the IFIs in Korea and Turkey in the early 1980s. In contrast to Chapter 4, Chapter 5 deals with the neoliberal divergence in the two countries from the mid-1980s to the late 1987. Having pursued similar neoliberal reforms, Korea and Turkey met different economic problems in the mid-1980s; under their dissimilar institutional settings, Korea and Turkey sought discrete solutions that made them take separate routes toward neoliberal transformation up to the late 1987.

This chapter consists of three sections. The first section on Korea treats legislative competition among economic ministries to take the initiative of industrial policy, institutional rearrangement for the solidification of public-private cooperation in the transition to a private-led economy, and collusive links between the president and business circles from the mid-1980s to the end of 1987. The second section on Turkey investigates the rise of Özal's young economic technocrats, their roles and strife with the traditional bureaucrats, the ensuing negative impact on the entire Turkish bureaucracy, and the uneasy relationship between the MP government and big businesses. The last section summarizes the previous two sections and draws a conclusion from an institutionalist point of view on why and how Korea and Turkey diverged in their journey to neoliberalization in the second half of the 1980s.

5.1 Korea

5.1.1 The developmental state's efforts toward private-led economy

In the early 1980s, radical neoliberal reformers endeavored to curb inflation and moved ahead with liberalization in finance and trade. The reform drive, however, weakened after Kim Jae-ik, a pioneer of neoliberalism, died in the Rangoon bombing. In the mid-1980s, corporate insolvency and non-performing loans of banks emerged as urgent issues. Bad loans from commercial banks, local banks, and Korea Exchange Bank reached 3.9 trillion won at the end of 1984 (I. Choi, 1991, p. 78). Externally, Korea's exports suffered global protectionism. At the time, economic policymakers were also the neoclassical economists who had studied in the US and pursued economic liberalization; compared with Kim Jae-ik, however, they were relatively moderate and believed that financial liberalization would be feasible after clearing up insolvent companies. The government could implement the full opening of the Korean economy only after conducting proper financial liberalization (Yi, 2008, p. 265). Therefore, industrial restructuring was prioritized over financial and trade liberalization, which necessitated the state's active role.

After the mid-1980s, the status of the EPB was not noticeable. Each economic ministry started to compete to take the initiative in industrial policy and institutionalize their wills by legislation. First, the MF noted the serious problem of insolvent companies. The Minister of Finance, Kim Mahn-je, who had gained a PhD in Economics from the University of Missouri in the US and served as President of the KDI, was an advocate of expansionary measures among neoliberalists. He announced a plan to postpone debts of insolvent firms and to take them over to third parties by encouraging healthy companies to absorb ailing ones. This could be embodied through the amendment of the *Regulation Law on Tax Reduction or Exemption*. According to the MF's plan, the Central Bank would provide private banks with low-interest, special loans of 3% annually to compensate for the losses incurred by bad loans and to exempt the acquiring companies from corporate taxes, transfer taxes, acquisition taxes, and registration taxes (Yi, 2008, p. 276).

The EPB asserted that mergers and acquisitions between companies should take place through the Industrial Policy Deliberation Council, which the EPB had established in 1981. As mentioned in Chapter 4, the Industrial Policy Deliberation Council was created by the Presidential Decree within the EPB. The DPMMEPB presided the council whose members were ministers from 10 ministries, the SPSEA, and the Senior Secretary for Administrative Coordination at the prime minister's office. The Industrial Policy Deliberation Council was an institutional body for policy cooperation and coordination on industrial restructuring between ministries. For the EPB, industrial rationalization should follow market principles without government intervention or favoritism. For the MF, however, the bankruptcy of insolvent companies by the market-based method would have a huge negative impact on the national economy, including mass unemployment, a series of bankruptcies of small and medium-sized enterprises, enormous losses in banks, and the fall in international creditworthiness (J. Choi, 1991, p. 107).

The MF's anti-market idea came from the fact that the MF was still in control of finance. In 1982, Kim Jae-ik had attempted to liberalize the financial sector through the privatization of banks. However, these efforts did not lead to the independent management of private banks. It was difficult for private banks to expect self-determining loan policies, and they unquestioningly followed the instruction of political elites and bureaucrats. The Central Bank also belonged to the MF (Jun, 2004, p. 121), which appointed executives and top managers of private banks. In fact, most bank presidents were retired officials from the MF (Clifford, 1994, p. 227); even so, the MF alone could not resolve the problems.

Behind the MF was SaKong Il, the SPSEA, who had earned a PhD in Economics from the University of California, Los Angeles, in the US, and had already worked with Kim Mahn-je as Vice-President at the KDI. The two had the same idea about the order and direction of policy. President Chun trusted SaKong Il as much as Kim Jae-ik. According to SaKong Il, Chun did everything he had to do to manage economic policies and protected him from lobbies or outside pressure (Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, pp. 177–178). Compared to Kim Jae-ik, who had been inflexible, SaKong Il called in working-level directors for briefing and consulted ministers in advance, thereby encouraging them to cooperate actively, even though he was a scholar-turned-technocrat (Chung, 1994, p. 164). In this vein, after the 1970s, the Presidential Secretariat continued to be the center of economic policy.

In contrast to the increase in government intervention in industrial restructuring, the EPB as well as other ministries shared the necessity to shift to private sector-participating and market-oriented economic policies. The MCI, which had been the most passive in neoliberal transformation, attempted to regain the status of the responsible ministry of industrial policy and drew a big picture at the whole industrial level in September 1983. Realizing that the transition from state-regulated economy to private-led economy was irreversible and desirable for the national economy, the MCI devised a strategy to strengthen their standing in the new era. The MCI pointed out that the existing industry-specific promotion laws legislated under the Park regime[40] were too vague, limited market competition, and operated inefficiently and shortsightedly in terms of industrial rationalization and

[40] These individual promotion laws covered iron, steel, petrochemicals, nonferrous metal, textiles, machinery, electronics, and shipbuilding industries.

sophistication.

Hence, the MCI decided to replace these separate laws with a new single law and prepared a bill, the *Promotion for Sophistication of Industrial Structure*. Specifically, this intended to strengthen the market mechanism by eliminating competition-restricting elements and to support the private-led economy by establishing advisory institutions within the private sector. Concerning industrial deepening and rationalization, the bill provided legal grounds for fostering promising and strategic industries through functional support system based on technology and productivity instead of the tax and financial support system; moreover, it aimed to adjust declining industries by temporarily protecting them, for them to be weeded out smoothly (Chang, 1993, p. 142).

The support period for the industry concerned was limited to three years, and it was meant to discipline the industries not to rely on government subsidies (E. M. Kim, 1997, p. 180). In addition, the bill stipulated the establishment of the Industrial Development Civil Council[41] to facilitate a transition to private-led economy by expanding the scope of the private sector's participation and to reflect their various opinions in industrial policies.

This plan was for the MCI to give up its legal privileges of the developmental era, when the MCI had dominated the industrial policies and exerted influence on companies. For instance, under the promotion laws by the industry, the Minister of Commerce and Industry had the authority to designate industries and could order the establishment, extension, and merger of facilities at his discretion. In

[41] The council consisted of less than 30 members, including one chairman. These were not civil servants and were appointed by the Minister of Commerce and Industry. Most of them were university professors, journalists, industry representatives, and executives of business organizations with significant knowledge and experience in the industry.

contrast, the bill would significantly lessen the minister's power. According to the bill, industries could be designated as subjects of rationalization by request of most of the businessmen in the relevant industry or by the authority of the minister. Then, the opinions of interested parties, such as industrial associations, would be considered, and the industry concerned would prepare and submit a rationalization plan to the MCI. After the MCI's public announcement of the plan, the final plan would pass through the Industrial Development Civil Council and the Industrial Policy Deliberation Council (E. Kim, 1999, p. 302).

In February 1984, the bill was drafted by the MCI's industrial policy office relatively free from the industrial circles.[42] The industrial policy office expected that other economic ministries would understand the new bill because the MCI per se would reduce its authority; further, there would be no disagreement inside the MCI because the new bill would institutionally reinforce its role in industrial rationalization and technology development. Starting in November 1984, the MCI's working-level officials held meetings on the bill but failed to reach an agreement. Some departments in charge of steel, petrochemical, aviation, and machinery industries argued for the maintenance of the existing industry-specific laws. Finally, the Minister of Commerce and Industry instructed each department to gather opinions in the direction of the industrial policy office's bill (Y. B. Kim, 2005, pp. 241–242).

After the end of the heated debate within the MCI, its bill moved on to the ministerial council. The EPB, the Fair Trade Office under the EPB, the MF, and the

[42] Coincidently, this bill was initiated by Han Duck-soo, a director of the Industrial Policy Division. He had moved from the EPB to the MCI. He had received a PhD in Economics from Harvard University in the US. He became Deputy Prime Minister and Minister of Finance and Economy in 2005 (B. S. Kim, 2005).

Ministry of Science and Technology submitted their opinions on the MCI's bill. The EPB agreed on the repeal of the existing industrial promotion laws and on an alternative law but requested to revise the MCI's intervention. The Fair Trade Office approved the MCI's bill but raised objections because the MCI's intervention in the promising industries could not be justified (J. Choi, 1991, pp. 102–103). Focusing on the amendment of the Regulation Law on Tax Reduction or Exemption, the MF opposed the MCI's bill, and the Ministry of Science and Technology worried about the overlapping jurisdiction with the MCI.

Each ministry was to thwart the MCI's bill because they were making their own bills individually. The EPB was drawing up a bill tentatively named *Sophistication and Rationalization of the Industrial Structure*; the MF was also devising legislation on industrial rationalization, and the Ministry of Science and Technology was working on *Fundamental Law on Science and Technology* (Y. B. Kim, 2005, pp. 242–244). In the final coordination stage, the Minister of Commerce and Industry, Kum Jin-ho, who had been Chairman of the Subcommittee on Commerce and Industry under the military junta in 1980 and was closely tied with the military elites,[43] made his point. After all, related ministers reached a conclusion that would adopt the MCI's bill by slightly modifying the MCI's role and named the bill *Industrial Development Law (IDL)* in July 1985 (Yi, 2008, p. 279).

During the inter-ministerial debate, the MCI established and operated its industrial development cooperation council to form public consensus on industrial policy through the expansion of private participation. Encompassing all experts in

[43] Roh Tae Woo, the number two of the Chun government, was the husband of Kum Jin-ho's sister-in-law.

the industry, academia, and media, the council was to exchange information, data, and technology between the government and the private sector, to discuss and deliberate on promising and declining industries, and to enhance industrial technology ("Idalchunge modubalchok," 1985). In a press conference on September 11, 1985, the government announced the bill for the IDL, which would serve as the fundamental of the new industrial policy after the late 1980s (Jooho Lee, 1985a). Then, the government held two meetings with economists and actively publicized the bill to the media. Economists largely supported the purpose of the bill and added that the function of the Industrial Development Civil Council would be important in industrial policymaking.

The business circles did not offer much resistance to the bill. In mid-September 1985, the FKI, the Korea International Trade Association, and the Korea Cooperative Federation of Small and Medium Enterprises requested to specify the support system and to elevate the status of the Industrial Development Civil Council. The Korea Chamber of Commerce and Industry expressed concern about the reduction of government support (Y. B. Kim, 2005, pp. 245–246). In an interview with the press, the Minister of Commerce and Industry strove to dispel worries about the new bill and stressed the necessity of legislation. As regards the possibility of a clash with the MF's revised bill, the minister said that the MF's bill would be complementary because it could be used as a means to support industrial rationalization plans in terms of taxation under the IDL; further, he explained that the industry-specific promotion laws specifying government intervention or support would cause trade friction.[44]

[44] Later, SaKong Il said that, if industry promotion laws had been maintained, Korea would have encountered countervailing duties or trade retaliation for subsidizing almost all industries

According to him, with the abolition of the existing laws, trade conflicts would be less likely to happen, and minimum, temporary, and functional support would not be understood as unfair industrial policies. Although the IDL would promote the opening of the market, there would be no side effects because new measures for technology and productivity improvement would be implemented for domestic industries in preparation for import liberalization (Jooho Lee, 1985b). Finally, the MCI's bill was sent to the National Assembly, which made no practical amendment to it. With the passing of the bill through the National Assembly in December 1985, the IDL took effect in July 1986 (Y. B. Kim, 2005, pp. 246–247).

The IDL was a product of an inter-ministerial agreement under the initiative of the MCI. Although the EPB had set up an Industrial Policy Deliberation Council in August 1981 and neutralized the MCI, the EPB per se was not able to implement industrial policy, believing that its cooperation with the MCI was inevitable for the efficiency of executing industrial policies. In competition with the MF, the MCI had no choice but to accept the EPB's opinion because it would have been impossible to legislate the bill if even the EPB had disagreed with it (H.-Y. Shin, 1998, p. 216). Therefore, the IDL reflected both the EPB's theoretical claim that state intervention should be minimized in industrial restructuring and the MCI's functional demand that the government should form an institutional basis for industrial sophistication (H.-Y. Shin, 1998, pp. 196–199). When it came to industrial rationalization, by limiting the MF's revised bill to the issues of tax and credits to the corporate level, the MCI took the initiative in comprehensive industrial policies through the IDL at the whole industry level. Consequently, the MCI confirmed its leading position in industrial

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(Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, p. 173).

policy with the formulation and implementation of the IDL.[45]

The IDL was a turning point in Korea's industrial policy. First, the IDL means that the MCI, the most conservative ministry in the DS, paved the way for a private-centered economic system—which is the core of neoliberalism—through the legislative process. Acknowledging the private sector's role, the IDL instituted the private sector's participation and linked the private sector to government policymaking. In the 1980s, the functions of industrial associations under the MCI greatly increased. The industrial associations were no longer subordinate actors because they had their own organizational power to adjust interests within the relevant industries and provided market information and policy alternatives to the government. Moreover, they aggregated and articulated the common and long-term interests of their industries; therefore, the associations by industry were crucial partners for the government (E. Kim, 2002, p. 240).

According to the IDL, commissioned by the Minister of Commerce and Industry, the associations represented their relevant industries exclusively and became quasi-official organizations responsible for the development of the related industries. Furthermore, they contributed to making research and investment, drafting industrial rationalization plans, and enhancing productivity and international competitiveness (E. Kim, 1999, p. 300).

With the IDL, the relationship between the government and the private sector evolved into a more interactive and interdependent relationship through the associations connecting the government and industrialists. A former official spoke of

[45] In addition to the IDL, the MCI had traditionally been at odds with the MF within the bureaucracy. The MCI, in charge of industry and trade, was pro-business and insisted on tax benefits for businesses, while the MF was opposed to it in terms of national finance and tax revenues (Former Official, personal communication, March 27, 2019).

the changes after the IDL as follows:

> The MCI lost its policy measures. The MCI’s bureaucrats communicated with industrial associations to represent their opinions but did not meet businessmen individually. Close networks with industrialists were maintained because the heads of the industrial associations were from the MCI. (Former Official, personal communication, March 27, 2019)

In the mid-and late 1980s, public-private cooperation became visible in the field of industrial research and development. The Chun government increased the number of state-funded institutes to complement policy functions (D. Yoon, 2012, p. 164) and legally supported the establishment and operation of corporate research institutes for industrial upgrading. The private sector joined industrial research and development projects (Kyun Kim, 1991, p. 42). For strategic technology development, Korea established a system in which government-funded and corporate research institutes jointly developed technologies by forming a consortium (K. M. Kim, 2017, p. 181).

Unlike previous top-down policymaking led by government officials, in the electronics industry, experts from companies, academia, and research institutes, the MCI, the Ministry of Science and Technology, and the Presidential Secretariat sought alternatives together through active suggestions. Despite the unfavorable situation in competition with foreign countries, Korea was able to prevent excessive investment in research and development and to increase investment efficiency by promoting joint research projects between the government and the private sector. For example, the government chose the development of 4M DRAM as a national project in 1986 and pre-empted redundant investments in the semiconductor industry through a consortium of Samsung, Lucky-Gold Star, and Hyundai Groups with the government-funded Electronics and Telecommunications Research Institute (K. M. Kim, 2017, pp. 233–234).

Despite the consolidation of public-private partnerships in industrial policy, the IDL intensified the government's industrial policy authority. The president had real power because the IDL applied to the industries prescribed by the Presidential Decree. The industry to be rationalized was decided by the Industrial Development Civil Council and the Industrial Policy Deliberation Council—both of which were also prescribed by the Presidential Decree. Besides, although the advice from the interested parties in the industry concerned should be considered, the government still possessed substantial power in the formulation and implementation of the rationalization plan (D. Yoon, 2012, p. 104).

Given that previous industrial investment adjustments had been made without legal grounds, the IDL made it possible for the government to legitimately intervene in business activities in the name of rationalization; this meant that the government could save or kill businesses by the law (S. Shin, 1986, p. 3). When it came to the effectiveness of the Industrial Development Civil Council, Chung Ju-yung, the chairman of Hyundai Group and the FKI, expressed doubts about the IDL and told the DPMMEPB that clear policy direction should be set ("Chaebŏlgŭrup ihaegŏllin," 1986). He also argued that the government should break away from direct intervention in the market and remain on the line of inducing the economy (Han, 1986, p. 3).

While the Chun government discussed legislation on industrial restructuring, the business' grievance over economic policies soared due to unrelenting recession, sluggish exports, and mounting debts. In early 1985, the Presidential Secretariat reported to the president that some economic policy stance should be shifted to the economic stimulus as the price stabilization was well maintained. Presided over by the SPSEA, a meeting was held at the presidential office, where the EPB, the MF, the Central Bank, and the Korea Trade-Investment Promotion Agency gathered to diagnose the Korean economy. Then, they decided to shift its policy stance to stimulate the economy by increasing loans for facility investment and incentives to exporting companies (Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, p. 185).

Fortunately, the Plaza Accord[46] in September 1985 gave the Korean economy three blessings: low oil prices, low-interest rates, and the depreciated Korean won vis-à-vis the soaring Japanese yen. Through the three blessings, Korea's exports regained their price competitiveness in the global market; particularly, the heavy and chemical industries, which had suffered from low operating rates until the first half of the 1980s, emerged as a driving force of Korean exportation. The Korean economy was thus able to escape the long tunnel of recession. The current account balance in 1986 posted a surplus that would last for the following three years, and its cumulative size almost matched the total external debt of the early 1980s (C.-G. Yoo, 2004, pp. 63–84). With high economic growth, the unemployment rate dropped from 4% in 1985 to 2.5% in 1988 (Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, p. 182).

The late 1980s were the starting point for the Korean economy—and especially large corporations—to enjoy a golden age, wiping out the recession that had begun since 1979. On the financial front, the normalization of insolvent banks

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[46] In 1985, the US invited French, West German, Japanese, and British ministers of finance to the Plaza Hotel in New York and announced the Plaza Accord, which would increase the value of the Japanese yen and the West German mark and lower the value of the US dollar. The decision was made to raise the competitiveness of US exports and escape from the twin deficits.

seemed difficult until the mid-1980s, but the balance of the bank quickly improved along with the three blessings. The fall in international interest rates also lightened Korea's foreign debt burden. Economic recovery was owing to favorable external conditions, but this was possible through the government's steady efforts for economic stabilization and structural adjustment (Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, p. 185). However, Korea did not take advantage of the opportunity for financial reforms, even though the Chun government still had the upper hand over chaebols, controlled finance, and recorded current account surpluses (C. H. Lee et al., 2000, p. 9). While the Chun government spent time cleaning up ailing companies, it did not make significant achievements in the financial sector as much as in economic stabilization and import liberalization.

Despite the economic boom, politically, the Chun government was losing popular support. Along with its illiberal rule, the stabilization measures caused losses for workers and farmers by freezing wages and the purchase price of grain, respectively. Public sentiment was expressed in support of the opposition party in the 1985 general elections.[47] Opposition parties blamed the Chun government for its pro-chaebol economic policies to the detriment of workers and farmers, and as a seven-year single-term president, Chun exacerbated uncertainty by taking an unclear attitude toward the political schedule for the future. Despite the people's desire for democratization, Chun rejected the constitutional amendment and nominated Roh Tae Woo—Chun's friend and a member of the coup d'etat in 1980—as the ruling party's presidential candidate, who was supposed to be elected president through the

[47] Founded just before general elections in February 1985 by opposition leaders such as Kim Young-sam and Kim Dae-jung, who took a hard line on Chun's dictatorship, the New Korea Democratic Party made an unexpected advance. The party demanded a constitutional revision for the direct presidential election system and democracy against the military regime.

electoral college in a sports arena. Anti-government protests demanding a direct presidential election spread across the country.

On June 29, 1987, Roh Tae Woo finally declared that he would accept the direct presidential election and political reforms (Haggard & Collins, 1994, p. 94). The presidential election would be held in December 1987 with a constitutional amendment. Through a series of events as illustrated in Table 4, Korea entered the stage of democratization. Along with political liberalization, workers organized massive strikes, calling for higher wages and better working conditions. The Chun government could no longer use coercive means and had to be aware of workers as a support base, which agitated the bureaucracy. Economic policymakers had to recognize the existence of political parties and politicians (Haggard & Collins, 1994, p. 102).

Table 4. Political Timeline of Korea in 1987

April 13	Chun's statement on the protection of the constitution
June 29	Roh Tae Woo's declaration on direct presidential election
October 27	Referendum on constitutional amendment for direct presidential election
December 16	Presidential election

As the political calendar was set, President Chun became a lame duck, and economic policies were politicized. According to Park Young-chul, the last SPSEA under the Chun government, even economic ministers concentrated all their efforts to get a ruling party candidate elected. If any issues seemed to be favorable to the upcoming election, they brought them directly to the president (H. Kim, 1999, p. 352). Despite fierce opposition from the EPB, the MF, and the Central Bank, the ruling party intended to relieve the debts of farmers along with the continued increase in the purchase price of rice (Haggard & Moon, 1990, p. 232).

Even SaKong Il, who moved from the SPSEA to the Minister of Finance, announced a series of measures to boost stock prices. The Chun government believed that falling stock prices would result in a drop in the ruling party's votes. The ruling party attempted to overturn the existing economic policies to win votes (Yi, 2011, pp. 39–41). President Chun thought that the economy he had achieved would be inherited and advanced; however, the ruling party turned a blind eye to the economic policies proposed by the Presidential Office (H. Kim, 1999, p. 352). The DS, born and sustained for more than 20 years under the military regimes, faced unprecedented challenges amid the new trend of democratization.

5.1.2 Hostile but strategic coexistence

From the outset, Chun's relationship with the business world was not amicable. As stated in Chapter 4, social purification campaigns, anti-chaebol policies such as the Monopoly Regulation and Fair Trade Act, enforced investment adjustments, and tight monetary policies accumulated complaints about the Chun government from chaebols. In the mid-1980s, the Fair Trade Office of the EPB thought that chaebols' monopoly and expansion of their affiliates were the causes of corporate insolvency and meant to revise the Monopoly Regulation and Fair Trade Act to prohibit mutual investment, which was to curb the concentration of economic power. The revision would specify the concept of chaebols or business groups, setting the limit of their stock holdings in other companies to prevent reckless expansion ("Chaebŏlgŭrup chikchŏpsanghoch'ulchagŭmji," 1986).

The EPB expected the revision to encourage the specialization of large companies and to grow them into internationally competitive enterprises. The business circles' responses were divided. Small and medium-sized firms welcomed the move, saying that it would contribute to stopping chaebols' high-handedness ("Taegiŏppanbal," 1986). In contrast, the FKI claimed that the regulation was a countermeasure to the sophistication of industrial structure, emphasizing that globalization and business diversification were an inevitable trend ("Chŏn'gyŏngnyŏn pandaep'yomyŏng," 1986). The FKI called on the government to reconsider the revision because restricting competition would undermine corporate creativity and managerial will ("Kiŏpsanghoch'ulchagŭmjibŏban," 1986). There was serious friction between the Chun government and businesses. The conglomerates met with working-level officials of the Fair Trade Office and had late-night discussions with them. However, the president ended the dispute by protecting the officials (Yi, 2008, pp. 402–403). Finally, the Monopoly Regulation and Fair Trade Act was revised in December 1986 and could be implemented in April 1987, allowing the government to directly interfere with the management and ownership of chaebols.

While the act was being amended, Kim Mahn-je moved from the Ministry of Finance to the EPB and made a standard for industrial rationalization in February 1986. A total of 49 ailing companies, mostly in overseas construction and shipping, found new owners between 1986 and 1988 (H. Kim, 1999, p. 383). Clearing insolvent companies had to be reviewed in advance by the Industrial Policy Deliberation Council under the DPMMEPB. However, the actual liquidation was conducted through the extremely closed policy process by only a small number of top policymakers (J. Choi, 1991, pp. 107–108). The political intentions of the ruling elites affected industrial rationalization. Incentives and financial support to chaebols were largely influenced by political funds funneled to President Chun and his family (Jun, 2004, p. 113). The collusion between the political elite and business circles through political funds was a long-lasting practice hidden behind a DS. Former governments had given preferential treatment to big businesses in return for receiving political funds.[48]

Starting in the mid-1985, Chun himself collected and managed political funds to maintain his authoritarian regime; further, Chun and his wife used charity foundations to receive corporate donations. As expenses for doing business in Korea, entrepreneurs had to offer tribute to these foundations and to the public organizations operated by Chun's relatives. On a regular basis, companies were openly mobilized for fund-raising events. When the Chun government allocated quotas to the companies, these had to be met. The president called in businessmen in private whenever he needed money (Yi, 2008, p. 302). The so-called *quasi-tax* allowed the Chun government to run off-budget organizations and spend on the projects without being scrutinized by the National Assembly. This phenomenon contrasted with Chun's early days in office, when he had promised to remove the collusive ties between politics and businesses.

While increasing individual secret meetings with businessmen, Chun ignored formal institutionalized channels with the private sector, such as the Monthly Meeting for Trade Promotion in the late 1980s. Chun held the Monthly Meeting for Trade Promotion three times in 1985, two times in 1986, and not at all in 1987 (Chung, 1994, p. 171). The FKI announced that quasi-taxes should be eased, and

[48] Under the Park regime, companies financed by the government had to donate 10–15% of the total amount of loan to the ruling party, not to mention corruption during the Rhee government (Wedeman, 1997, p. 466).

measures should be taken to curb corporate social costs other than voluntary spending (“Sŏnggŭmdŭng chunjosebudam,” 1985). Citing data from the Korea Economic Research Institute, the FKI pointed out that 41.8% of involuntary quasi-taxes was mandatory regardless of corporate will and urged households or the government to pay them (“Kiŏp chunjosebudam,” 1987) The FKI suggested that the government use only legal taxes, but the campaign had little effect. Chun taught companies a lesson, namely that the allocation of bank credit as a means of controlling conglomerates remained crucial to the survival of chaebols. The Chun government was able to dispose of financially ailing companies at will according to political judgment; therefore, big conglomerates were afraid of retaliation and competitively participated in donations to win favors (Rhee, 1994a, p. 221).

For instance, Kukje Group—the seventh-largest chaebol, with poor financial conditions and a high debt ratio—was dismantled by the Chun government. Yang Jung-mo, the chairman of Kukje Group, said that his group’s management was indeed difficult, but claimed that if banks had provided financial support, his group could have been revived (Yi, 2008, p. 182). According to Yang Jung-mo, he supported an opposition candidate in the 1985 general elections, donated relatively small sums to Chun’s foundation and his brother’s organization, and was late for a reception attended by the president. This angered Chun and eventually demolished his business group (Clifford, 1994, p. 222). The Industrial Policy Deliberation Council designated eight affiliates of Kukje Group as targets for industrial rationalization (“Kukchegŭrup4sa,” 1986). The corporations that paid large political funds to Chun and his relatives acquired the lion’s share of Kukje Group (Yi, 2008, p. 286).

Not all businessmen, however, suffered from this collusion between politics and business. Political funds were the safest investment for the uncertain future. Chaebols intentionally expanded their businesses for survival because the government could not topple big business groups, considering their impact on the national economy. After the industrial rationalization, the winners were large companies that had the know-how and money in the sector or related sectors. Chaebols capitalized on financial support and tax breaks as compensation for their takeover of the ailing firms; hence, industrial restructuring was an occasion to reorganize and consolidate the block between the state and chaebols (H. G. Shin, 1994, pp. 19–20).

Consequently, no progress was made in reducing the concentration of economic power of chaebols as the president relied on chaebols for political funds. Despite the Chun government's policy to regulate chaebols, the ratio of sales of the five biggest chaebols accounted for three-quarters of manufacturing GDP in 1987 (E. M. Kim, 1997, p. 183). Since the Chun government banned chaebols from owning private banks, these invested in non-banking financial institutions like insurance, securities, and short-term investment finance companies that were free from government regulations. Chaebols cut back on financing from state-controlled banks (E. M. Kim, 1997, p. 189). The internationalization of capital markets became an alternative for financial sources of chaebols. In turn, the chaebol's dependence on the state began to gradually decrease (Moon, 1994, p. 152).

Along with mergers and acquisitions, the economic fruits of the three blessings flowed into big conglomerates engaged in heavy and chemical industries. At the time, chaebols already overtook the government in information and technology and were the main players in industrial investment. When it came to research and development investment, the total amount increased more than tenfold from 211.7 billion won in 1980 to 2.3474 trillion won in 1988, among which the ratio of the government continued to decrease from 52% in 1980 to 18% in 1988. Meanwhile, the top 20 conglomerates spent more than 50% of the total research and development expenses. By industry, research and development was concentrated in heavy and chemical industries (J.-J. Kim, 2004, pp. 325–326). Throughout the 1980s, the economy was transferred to a handful of large corporations and transformed into a chaebol-centered structure, which was contradictory to the open and competitive market that neoliberalists had expected in the early 1980s.

Concerning democratization in 1987, the business community did not have a consistent view of democratization. In April 1987, when Chun refused to amend the constitution for the direct presidential election system, the business community issued a statement saying that the president's decision was inevitable at a time of repeated confusion and conflict ("Chŏn'gyŏngnyŏn sangŭidŭng," 1987). However, two months later, the FKI hailed Roh's declaration as a move to resolve the conflict and confusion surrounding the political schedule ("Ijen ollimp'ik,"1987). With political liberalization, the labor union was a new challenge for the business as it was for bureaucrats. The Chun government requested private companies to make greater efforts to increase welfare for their employees and to lessen the wage gap ("Min'gan'giŏp," 1987). Facing the escalating labor pressures, the Chun government and the ruling party prepared for a bill guaranteeing labor's rights (Haggard & Collins, 1994, p. 101). Labor unions and opposition parties tried to include workers' participation in corporate management in the new constitution. With public criticism of the concentration in the economic power of chaebols, the FKI feared that a new regulation on the business would be inserted in the revised constitution (K. Hong, 1987).

To make matters things worse, chaebols were in a state of isolation because the Chun government and the ruling party paid attention to broaden the political coalition. Big businesses expressed discontent with the government's policy stance including the protection of small and medium-sized enterprises and regulations on mutual investment inside a big business group. They argued for minimizing government intervention and regulations, citing the basic principles of a free-market economy (S. Kim, 1987). In return for workers' wage increases, the business community called for the government to lower interest rates. However, the Chun government did not intervene in labor issues to side with the businessmen (Haggard & Collins, 1994, pp. 101–102). With democratization, the state's strong support for chaebols disappeared. Chaebols opened the way for them to resist the state, and the DS's state-business relations entered a new phase.

In sum, after the mid-1980s, moderate neoliberalists directed industrial restructuring through state intervention. The Presidential Secretariat was de facto the central axis of economic policy. Although the hierarchical primacy of the EPB did not stand out, other economic ministries approved its policy direction; therefore, they strove to pass a new bill on industrial policy stipulating the private sector's participation, which crystallized into the IDL led by the MCI. As to industrial policy, the promotion of public-private cooperation in the field of research and development illustrates the process of moving to a private-led economy through government intervention within the framework of the DS. However, few reforms were made in the financial sector because industrial rationalization was more urgent. As regards the relationship between the state and the business, the Chun government tried to regulate chaebols to establish a fair market order and curb the increasing concentration of economic power. However, the collusion between politics and big businesses through informal contacts prevailed. The benefits of the liquidation of insolvent enterprises through political funds went to large corporations, whereby the concentration of economic power of chaebols intensified. Finally, democratization in 1987 brought about the politicization of economic policy before the presidential election, and labor unions expressed anger at the business community. The DS, born and raised under authoritarian regimes, came to face a new challenge.

5.2 Turkey

5.2.1 The rise of Özal's princes

Reaffirming the support of the people with the MP victory of the 1984 local elections, Özal went on to structurally adjust programs that would integrate Turkey into the global economy and to plan an export-driven growth strategy with large conglomerates. As noted in Chapter 4, Özal weakened the traditional bureaucracy and the parliament and built a power structure centered on the prime minister by reorganizing state agencies in the first half of the 1980s. At the time, engineers-turned-technocrats, who had worked with Özal in the late 1960s at the SPO, led economic reforms but lacked expertise in the free-market economy (Dalgic, 2012, p. 225).

In the second half of the 1980s, Özal selected new technocrats and filled them in the heads of critical governmental apparatuses and SEEs in earnest to accelerate the neoliberal reforms. Popularly known as *Özal's princes*, a new group of young technocrats had a strong belief in free-market mechanism and technical expertise in economics. Almost all the princes completed higher education in the US, and about half of them finished undergraduate studies at Boğaziçi University in Istanbul before going to graduate schools in the US. Moreover, they had already worked in the private sector and international organizations such as the IMF and the World Bank for several years before serving in the MP government (Dalgic, 2012, pp. 132–134).

However, this elite group was far from the characteristics of Weber's bureaucracy required for the bureaucratic autonomy forming part of state capacity. First, the princes had a direct or indirect connection with Prime Minister Özal and his family, especially his son Ahmet Özal, who had studied in the US and worked at the IMF. Although there were public recruitments in the US for Turkish students to work for the MP government in 1985 and 1986, no one was hired without a personal link to Ahmet; therefore, Ahmet had a great influence on the appointment of his friends to high government posts, instead of objective evaluation criteria (Heper & Sancar, 1998, pp. 155–156). Besides, the princes per se were not a cohesive group with "the solidarity and the corporate identity of the bureaucratic elite" (Öniş, 1991b, p. 124). For example, most Korean neoliberal technocrats had the common characteristics of being undergraduates at Seoul National University, having a doctoral degree in economics from the US, and being bureaucrats at the EPB through the high civil service examinations or researcher at the KDI. However, the princes were not as homogeneous as Korean counterparts. In addition, they did not have a foothold such as a school, institute, or government agency where they could embody and consolidate their ideas systematically.

The unconventional recruitment and political appointment of the princes disregarded the promotion process within the bureaucracy and made it inevitable for them to clash with the existing bureaucrats, composed mainly of graduates from Faculty of Political Science of Ankara University. Still, Özal thought that traditional bureaucracy was inefficient, political, and against the market economy and lacked the specialized knowledge for economic liberalization. Accordingly, Özal turned in favor of the new blood untainted by the ills of the Turkish bureaucracy and expected the princes linked to the US and the IFIs to play a role in globalizing Turkey's economy (Heper & Sancar, 1998, pp. 151–152).

After returning to Turkey, many princes had no bureaucratic experience, and they initiated official careers as the prime minister's advisors. They had to wait for a while there until they would be appointed to the directors of state-owned banks (SOBs) or SEEs because those organizations required several years of experience in the public sector. The princes from abroad were not able to meet such a legal prerequisite; they also needed time to gain the knowledge and skill for their tasks. Although the prime minister's office was temporarily able to shield them from traditional bureaucrats, politicians, and society, the princes' position and authority were dependent on their relations with Özal and his family (Dalgic, 2012, pp. 144–146).

In the mid-1980s, Korea put financial liberalization on hold due to ailing companies and non-performing loans, while Turkey stepped up efforts to liberalize the financial sector in earnest. It was the princes who took the lead in the project. For Turkey, the Central Bank's reform was urgent for financial liberalization. After Turkey received foreign currency aid in 1980, voices from the IFIs calling for Turkey's debt repayment and financial liberalization grew, and the Central Bank's role in dealing with such international creditors became very important. Rüşdü Saraçoğlu, with a PhD in Economics from the University of Minnesota in the US and a great career at the IMF, was appointed director of research in 1986 and then governor of the Central Bank in 1987. Bülent Gültekin, with a PhD in Finance and Statistics from the University of Pennsylvania in the US, entered the Central Bank to succeed Saraçoğlu, whereby high echelons of the Central Bank were staffed by the princes. They decided policies based on statistics and assessment on pragmatic results, which contrasted with their predecessors, who had focused only on financial audits. The princes' high analytical skills and links to international organizations renovated and internationalized the Central Bank (Öniş & Webb, 1992, p. 24).

This laid the foundation for the Central Bank to have a say in macroeconomic policy decisions. The personnel reshuffle in the Central Bank appealed to the IFIs that Turkey's financial liberalization was well in progress; yet the Turkish financial community and traditional bureaucrats centered around Deputy Prime Minister Erdem, who still remembered the Banker's Crisis as then Minister of Finance in 1982 and advocated gradual liberalization of foreign exchange and interest rate regimes. For traditional bureaucrats, the advent of Saraçoğlu illustrated that the control over the Central Bank and other SOBs began to shift from them to the princes (Dalgic, 2012, pp. 153–154).

The young princes attempted to transform "a banking sector which had . . . remained a morass of mismanagement, inefficiency high operating costs, and doctored bad loans" (Öncü & Gökçe, 1991, p. 105). Many princes also served in the SEEs and worked on their privatization and the merger of SOBs. The princes sought to introduce a rational management system of the US to make the SOBs internationally competitive or attractive to foreign investors (Dalgic, 2012, pp. 147–148). As regards privatization, privatization studies for the SEEs were initiated in 1985 and 1986, and the SEEs to be privatized were selected. According to the law in

1986, the Mass Housing and Public Participation Fund (MHPPF)—the biggest extra-budgetary fund (EBF)—took charge of privatization (Waterbury, 1993, p. 152).

As in the cases of the Central Bank and SOBs, the princes were brought into the MHPPF wherein they could enjoy fiscal resources arbitrarily. The MP government politicized these EBFs to win popular support by shifting its investment from manufacturing industries to social overhead capital (Öniş & Riedel, 1993, p. 102). Although the original purpose of the MHPPF was to solve the housing problem of low-income families, it actually benefitted the middle and upper-middle classes (Bekmen, 2003, pp. 107–108). With increasing housing investment via the EBFs, private investment in manufacturing dropped, and its ratio in total capital formation declined (Milor, 1989, p. 341). Moreover, the incentives were funneled to nonindustrial areas such as real estate, commercial, or financial businesses rather than to facility investment in manufacturing for the vertical integration of the industry (Milor, 1989, p. 343). Exports were not based on new investments but only made use of existing facilities (Onaran & Stockhammer, 2005, p. 82).

EBFs made it possible for the princes to circumvent the scrutiny of traditional bureaucracy and the parliament in the process of privatization. The princes took interest through government contracts and property of SEEs without any responsibility. They also abused the privileges in newly created agencies. However, the privatization made little progress up to 1987, and the vast public sector was still unreformed (Ozel, 2003, p. 103). In contrast to Korea's economic ministries competition to legislate the IDL and activation of deliberate councils to institutionalize the transition to private-led economy, the Turkish economic reforms were extremely arbitrary. Short-term policies were formulated and immediately implemented without institutional consultation.

Furthermore, the *inner circle*[49] frequently revised policies. Even if Korea's bureaucratic autonomy was breached by political leaders, the Weberian bureaucracy was maintained and attempted to separate itself from politics. Conversely, Turkey's princes subordinate to Özal did not have their autonomy and failed to harmonize with existing officials. Under a top-down policymaking structure centered on the prime minister, the political appointment of the princes caused "frequent disregard for the rules and regulations, conflicts of jurisdiction among various public agencies, and a general decline in the quality and effectiveness of the state bureaucracy" (Özbudun, 1994, p. 207) and resulted in the "fragmentation and balkanization of the economic policy apparatus and higher turnover among top personnel" (Biddle & Milor, 1997, p. 286). Given that traditional officials still occupied many ministries, the princes' coordination and cooperation with them were essential in implementing policies, even though efficiency was prioritized over legality; discretionary decisions from above violated and skipped laws and bureaucratic rules (Buğra, 1994, p. 164). Excluded from policymaking, middle and high-ranking officials became antipathetic to the princes and resisted them, which hindered the swift and smooth execution of government policies (Sayarı, 1992, p. 37).

In the past, bureaucrats had been able to rate and screen companies applying for rents based on Five-Year Development Plans. However, such processes were omitted under the MP government (Biddle & Milor, 1997, p. 290). Unlike the state's discipline over big businesses in Korea, export subsidies brought about inter-ministerial conflict, and the checks on the transfer of state resources to export sectors

[49] The inner circle consisted of the heads of the Central Bank, the UTFT, the SPO, the Board of MHPPF, the High Coordination Council of the Economic Affairs, and the directors of the two biggest state banks, Ziraat and Emlak (Öncü & Gökçe, 1991, p. 104).

did not work well. The frail bureaucracy was vulnerable to corruption and could not punish rent-seeking behavior, which triggered fictitious exports (Öniş & Webb, 1992, p. 48).

As in Korea, with the lifting of the ban on the activities of the pre-1980 politicians in the referendum in September 1987, Turkey entered the electoral phase. Özal was in a dilemma between economic stabilization for market-oriented reforms and economic growth through the expansion of public investment (Öniş & Riedel, 1993, pp. 101–102). As Özal turned more attention to politics, economic policies were very politicized before the general elections in November 1987, and opposition parties started to criticize economic policies and arbitrary policymaking by pointing out inequitable income distribution; thus, distributional pressures emerged in the Turkish economy again. The MP government chose expansionary measures that included raising wages for urban workers and government employees and subsidies for farmers, who were the losers of stabilization and structural adjustment and accounted for most of the electorate. The weak bureaucracy was not able to ward off populism and the mismanagement of EBFs as these were strategically used before general elections to maintain the MP's right-of-center coalition. These phenomena worsened the deficits of the public sector, and the MP government resorted to the issue of currency (Owen & Pamuk, 1998, p. 121). It gradually became dependent on domestic borrowing, which brought about economic instability in the late 1980s and onward (Öniş, 1998, p. 501).

Nevertheless, Turkey's export performance was not enough to repay foreign debts, and exports were maintained by subsidies through fiscal spending (Aricanli & Rodrik, 1990, p. 1347). Contrary to the purpose of neoliberal reforms, which had aimed to reduce the public sector and to establish a market-oriented and private-led economy, the MP government's policies hurt economic stability by increasing fiscal expenditure. The conditionalities set by the IFIs were not valid in the second half of the 1980s (Öniş, 1991a, p. 169). Turkey turned its eyes overseas to compensate for public sector deficits because the state was incapable of raising taxes on the private sector, having to rely on foreign debt to cover the fiscal deficit again (Milor, 1989, pp. 351–352).

As shown in Table 5, Turkey's external indebtedness steadily increased, and macroeconomic indicators worsened after the mid-1980s. At the end of 1987, Turkey's foreign debt accounted for more than half of the GNP, which was at the level of the largest debtor countries. Turkey's debt-to-equity ratio also increased to over 30% by spending its resources to reimburse foreign debt (Kuruç, 1994, pp. 144–145).

Table 5. Turkey's Macroeconomic Instability, 1980–1988 (percentage)

	GNP Growth	Inflation Rate (Wholesale Price Index)	Budget Deficit / GNP	Eternal Debt / GNP
1983	3.3	30.5	2.5	35.6
1984	5.9	50.3	5.1	42.4
1985	5.1	43.2	2.8	47.1
1986	8.1	29.6	2.9	54.0
1987	7.4	32.0	4.1	60.5

Note: Adapted from *State and market: the political economy of Turkey in comparative perspective,* by Z. Öniş, 1998, p. 34, Boğaziçi University.

High rates of inflation and serious disequilibrium in the exchange market created an economic crisis and once again made Turkey aware of the necessity of a stabilization policy.

5.2.2 Uncomfortable cohabitation

The MP government's export-driven growth strategy generated enormous incentives and subsidies for exportations, by which some big businesses formed part of the MP's coalition. Most of the rents went to a small number of large, multi-sectoral holding companies equivalent to chaebols in Korea. Such large holding companies had their own banks, insurance, trade, and manufacturing subsidiaries; they were most optimized for the MP's export promotion policy because they had enough capacity to recover their losses in the manufacturing with profits from exports and finance and could contact Prime Minister Özal and technocrats around him. Moreover, the EBFs consolidated particularistic ties between the state and big businesses. Through the MHPPF, around two billion dollars was directed to these holding companies in the early 1988 (Milor, 1989, p. 339).

Most FTCs organically affiliated with large conglomerates could exert influence on the MP government through their association. For instance, the Exporters Association was organized by exporting firms in 1983 as an interest association of exporters. Its name changed into the Foreign Trade Association in 1984 and then into Turkish Foreign Trade Association in 1986. This association aimed to analyze various policies and to deliver their opinions to the MP government, contacting those involved in the relevant area. The MP government dramatically reduced export incentives to exporters, especially FTCs, due to an agreement with the GATT, fiscal deficit, and problems of fictitious export in 1985 and 1986; as a result, the increase in the exports of the FTCs decreased. The association met with the UTFT, the MF, the SPO, and the Central Bank, and they debated the report submitted by the association. Then, some incentives were restored as the association had planned (İlkin, 1991, pp. 92–96). However, not every sizable company had a good relationship with the MP government, which inflicted damage on certain businessmen by excluding them from its incentive system. As in the case of Kukje Group in Korea, those businessmen who had once supported opposition parties or did not have close links with the power structure had to bear disadvantages. For example, Halit Narin's company—one of the companies that Özal did not like—had to face financial difficulties because of the growing interest in loans and was not provided with any special favors from the MP government. While other companies participated in government events, meetings, and bids, his company was not invited. Narin blamed the unfair system whose benefits were concentrated only in the hands of a small number of pro-government companies (Tafolar, 2008, pp. 125–126)

After the mid-1980s, the more power was concentrated in the prime minister, the more arbitrary policy was decided without any checks and deliberations. This led to frequent policy changes, which made the business environment unpredictable. Özal or his entourage appeared at meetings to justify the policy after this had already been implemented (Heper, 1991a, p. 165), and the constant complaint in the business circles was that the MP government did not consult them in policy formulation and policymaking processes. For entrepreneurs, the institutionalization of consultation between the government and businesses was necessary to create a predictable environment and to enhance confidence in economic policies (Biddle & Milor, 1997, p. 309).

Therefore, the TÜSİAD proposed an Economic and Social Committee including the representatives from business, workers, academics, and policymakers to discuss economic issues. However, economic policymakers ignored the TÜSİAD's demand for participating in the economic policymaking process (Gülfidan, 1993, p.

82). In this situation, the businessmen sought to contact the inner circle to gain favors and to respond to policy changes (Buğra, 1991, p. 159).

Ostensibly, the contact between the TÜSİAD and the MP government increased: starting in 1985, the TÜSİAD executive invited Prime Minister Özal and other ministers yearly to its General Assembly or the High Advisory Council. In return, the TÜSİAD delegation annually visited the prime minister and accompanied him on his overseas trips. The TÜSİAD also held temporary meetings and seminars with ministers and high-ranking officials to gather opinions from various sectors (Gülfidan, 1993, pp. 77–78). Nevertheless, these contacts did not mean that the private sector participated in the policymaking process; the MP government adhered to top-down policy decisions, not recognizing the business community as an equal partner, and preferred individual contacts with businessmen to institutionalized meetings. Even when devising a new tax law, the MP government received the opinion of the TOBB rather than that of the TÜSİAD (Süzer, 2001, p. 85). However, the TOBB was also not invited to a dialogue with the MP government for policymaking. The head of the TOBB complained about it, arguing that the government should consult with related sectors in advance to launch a new tax system (Tafolar, 2008, p. 211).

Although business circles opposed the MP government's haphazard economic policies, it was not easy for them to speak out against it due to fear that the prime minister would retaliate against their business. A businessman said that Turkey's businessmen earn more from Ankara's decisions than from the manufacturing of products (Süzer, 2001, p. 37). According to a member of the TÜSİAD, the members criticized the government's economic policies, including interest rates, trade, and finance at the meeting, but they did not want their opinions to be publicly known (Süzer, 2001, pp. 103–104).

In 1987, Ömer Dinçkök, a young entrepreneur and chairman of the TÜSİAD, criticized that the private sector was not involved in the formulation of relevant policies, even though it bore all the burdens (Heper, 1991a, p. 171). Dinçkök said that the TÜSİAD should inform the public of the government's policies that would run counter to national interests from a long-term perspective through the media (Heper, 1991a, p. 170). The business community was not strong enough to confront the government head-on; thus, the TÜSİAD endeavored to create public opinion by publishing and disseminating reports on the Turkish economy and the government's policies and by holding seminars, conferences, and dinners to discuss economic matters with politicians, journalists, and scholars, and so on (Arat, 1991, p. 139).

The alliance between the MP and big businesses began to sour as macroeconomic indicators worsened in 1987. The main issue was the public sector. Unlike the prime minister's pledge to pursue a market economy in 1983, the volume of the public sector did not reduce, and expansionary fiscal policies to secure the MP's coalition increased public spending and foreign debt before the general elections in November 1987. Such a lack of fiscal discipline was the main culprit for high inflation. Starting in the mid-1980s, the TÜSİAD continued to criticize the rampant inflation, fiscal deficits, inefficient SEEs, and priority policies for the public sector in finance at the sacrifice of the private sector. The TÜSİAD researched data, provided information to legislators and bureaucrats, released them in monthly reviews and through various reports, investigated economic policies and budgets, and unofficially issued businessmen's opinions (Gülfidan, 1993, pp. 80–81).

Referring to rising foreign debt, the TÜSİAD's report *Foreign Debt, Forecast and Analysis* warned of the possibility of a foreign exchange crisis and urged necessary measures to be taken (Arat, 1991, p. 145). The TÜSİAD's views, however, were once again not reflected in economic policies. Businesses judged that the MP government could no longer execute structural reforms to establish the market mechanism. At the end of the 1980s, there was a serious rift in the mutual trust between the MP government and big businesses along with macroeconomic instability.

In sum, in the mid- and late 1980s, Özal transplanted his princes into the Turkish bureaucratic society to hasten his neoliberal programs. However, the prime minister's centralized, personalized, and top-down decision-making structure resulted in ignoring procedures and rules and by extension hurt the bureaucratic order and norm. Far from Weberian bureaucrats, the princes were not entrusted with economic policy by Özal and were subordinate to his interests. In addition, they were not in harmony with traditional officials as an economic team to implement reform policies. Therefore, the princes did not have bureaucratic autonomy enjoyed by economic teams in the DS. As regards state-business relations, the TÜSİAD's demand for participation in the economic policy process was rejected. The success or failure of the business was determined by the businessmen's personal relationship with the prime minister and his aides in the absence of embedded autonomy. Before the 1987 general elections, when pre-coup politicians could run, the MP government implemented expansionary measures contrary to neoliberal vision to increase political coalition, which aggravated economic instability and drove Turkey into a crisis again.

5.3 Comparative analysis

Unlike the convergence of economic policies toward neoliberalism in the early 1980s, the efforts of Korea and Turkey to implement a private-led market economy started to diverge after the mid-1980s. In Korea, moderate neoliberalists gave priority to industrial rationalization through the liquidation of insolvent companies rather than economic liberalization; thus, they actively intervened in the industrial rationalization. What is noteworthy at the time is that the state increased private participation in economic policymaking, and economic management was still conducted by the Presidential Secretariat rather than the EPB. However, the EPB's traditional rivals—the MF and MCI—were all in agreement on the direction of civilian participation in economic policies. In particular, having sturdily opposed the EPB's market-oriented reforms, the MCI played a leading role in drafting a new industrial law toward a private-led economy. In the end, the IDL, which would be the backbone of future industrial policies, was created through policy discussion and coordination. Instead, reforms in the financial sector were slow.

With the three blessings, Korea saw a golden age for the economy, blowing away long-standing economic recession and foreign debt problems at once. Uncertainty in the political schedule disappeared through the constitutional amendment specifying the direct presidential election system. However, the first direct presidential election since Yushin in 1972 politicized economic policies. Politicians from the ruling and opposition parties overused pork-barrel policies for workers and farmers, whereby Korea's bureaucracy was besieged by political pressure.

When it came to state-business relations in Korea, under the Chun government, formal meetings like the Monthly Meeting for Trade Promotion—a symbol of embedded autonomy since the 1960s—decreased and then disappeared in 1987. Behind it, however, the Chun government revealed the evils of collusive ties between politics and business circles. The fate of large corporations was determined by the amount of political funds transmitted to the president and his family. Pro-government chaebols made the most of the opportunities to expand through industrial rationalization, thereby strengthening their concentration of economic power in the Korean economy. Finally, they became the mainstay of investment based on abundant funds and started to outpace the government in information and technology. Nevertheless, chaebols were socially and politically isolated in the face of attacks from labor and political circles during democratization; they wanted to make their voices heard and diversified their financing methods to reduce their dependence on the government.

In Turkey, the state enjoyed the highest autonomy vis-à-vis society since 1984, but the centralization of power in the hands of the prime minister was not linked to the enhancement of state capacity. To push for economic liberalization, Özal deliberately incapacitated traditional bureaucrats by appointing young princes who had studied economics in the US to high-ranking posts in main state agencies. Under Özal's strong backing, the princes' expertise was expected to promote financial liberalization and privatization. As a result, the Central Bank was innovated by the princes in line with the changes in the new financial trends.

However, most princes harmed the whole bureaucracy. In terms of political leadership necessary for bureaucratic autonomy, Özal did not delegate economic policies to the princes by directly intervening in the economy. Even though the princes were insulated from the outside, they were not independent of Özal and did not have autonomy. In addition, politically appointed by Özal rather than through merit-based competition, the princes did not have the features of the bureaucracy identified by Weber and could not blend in with the traditional bureaucrats and financial worlds. As a result, arbitrary policymaking pursuing only efficiency without checks and deliberation caused conflicts with the existing bureaucratic society. Nevertheless, Özal did not coordinate disputes between the princes and traditional bureaucrats smoothly. The princes per se did not have a collective identity and had no common denominator to unite themselves; they were not durable because they were the economists who temporarily gathered around Özal. Therefore, it was impossible for them to institutionally obtain the bureaucratic autonomy enjoyed by the economic teams of the DS.

Of course, in Korea, outsiders who did not belong to the traditional bureaucracy were appointed as heads of economic ministries and state apparatuses. However, they had the KDI in the society and the EPB in the government as bases after earning a doctorate in economics in the US. Despite inter-ministerial rivalry, whether economists or bureaucrats, Korean elites were mostly graduates of Seoul National University. Although the EPB, the MCI, and the MF competed with each other, Korean officials had esprit de corps as elites selected through the same high civil service examinations. In this regard, Korea's neoliberalists were very homogeneous, and the cohesiveness of the EPB was sustainable regardless of the changes of the governments. These are the differences found between neoliberal technocrats in Korea and Turkey within the state bureaucracy.

As for state-business relations, a handful of large holding companies monopolized favors through their particularistic ties with Özal and his associates. However, haphazard policy decisions and frequent policy changes brought about an uncertain future. The MP government policies favoring the public sector draw complaints from business circles. Businessmen wanted formal consultations with the MP government in the phase of policy formulation to ensure a predictable economic environment; however, their aspirations did not come true. Like all Turkish governments in the past did, the MP government did not regard the business world as its equal partner. In contrast to the surge in Korea's private investment in the 1980s, private sector investment in Turkey remained stagnant. Just like in Korea, Turkey also faced a fully competitive general election in November 1987. Özal broke the economic stability he had achieved in the early 1980s by expanding public spending to embrace workers and farmers and consolidate the center-right coalition. The TÜSİAD continued to call for reforms to stabilize the economy, but the demand was not reflected in the policy. In the end, mutual trust between the government and the business community collapsed amid a heightened sense of crisis over the economy.

Neoliberalism in both countries diverged by policy priorities starting in the mid-1980s. State intervention increased for neoliberal transformation in Korea and Turkey; however, the neoliberal divergence between the two countries is obviously revealed through the examples of the IDL of Korea and the princes of Turkey. Chapter 6 investigates neoliberal reforms by focusing on changing relations among political leaders, economic policymakers, and businessmen from 1988 to the early 1990s in Korea and Turkey.

CHAPTER 6

NEOLIBERALISM FROM 1998 TO THE EARLY 1990S

Chapter 5 dealt with the neoliberal divergence in Korea and Turkey that tried to resolve economic problems by institutional efforts to implement private participation into industrial policy and by the political appointment of the princes to speed up economic liberalization, respectively. Both governments underwent similar conflicts with large corporations from the mid-1980s to 1987. Chapter 6 delves into how and why neoliberal reforms proceeded and remained unfinished from 1988 to the early 1990s. Specifically, this chapter comparatively scrutinizes the complicated relationship among political leaders, economic policymakers, political elites, and big businessmen under the changing political and economic circumstances in both countries.

This chapter consists of three sections. The first section on Korea treats the alteration of economic policies caused by different diagnoses of Korea's economic problems and the business community's reactions to the state's intervention to boost industrial competitiveness. The second section on Turkey investigates the unsatisfactory results of privatization and continuous economic instability under Prime Minister Özal's second term in office as well as the intensifying confrontation between the government and the young generation of the TÜSİAD. The last section summarizes the previous two sections and analyzes why both countries could not finish the neoliberal transformation and in turn chose to go back to the past economic development paths.

6.1 Korea

6.1.1 The controversy over economic democratization and total crisis

In the historic presidential election in December 1987, anti-government democratic forces failed to unify their candidates: Kim Young-sam and Kim Dae-jung. Even though most Koreans wanted a political change, such a divided opposition enabled Roh Tae Woo (hereafter Roh), Chun's successor, to be elected President with only 36.6% of the vote (Clifford, 1994, pp. 282–283). Roh was the first president in Korean history to take office in an economic golden age. The initial economic conditions, with approximately 12% economic growth rate and favorable balance of payments, were good for a new government (Yi, 2011, p. 61). Amid optimism about the economy, Roh delivered a speech at the inauguration on February 25, 1988 as follows:

> The day when freedom and human rights could be slighted in the name of economic growth and national security has ended. . . . The history of development since the 1970s teaches the grim lesson that no matter how high or sustained economic growth may be, it alone cannot ensure that we will attain our ideal of a harmonious, balanced and happy society. . . . The time has come for the government and all segments of society to strive in concert to achieve a just and fair distribution of income so that every citizen can share the fruits of growth. (M. Lee, 1990, p. 150)

As such, Roh promised to usher in a period of democracy and stressed welfare and equity rather than growth in the economy. Particularly, Roh had already pledged *economic democratization*[50] during the presidential campaign and hinted that he would reform the economic system, reflecting the aspirations of voters at the

[50] Economic democratization aims to ensure "the economic interests of underprivileged groups . . . by correcting the excessive concentration of economic power or distortion of income distribution resulting from the state's high-growth policies and forming a new legal and institutional order to regulate the economy." Therefore, economic liberalization for efficiency and economic democratization for equity are mutually contradictory (B.-S. Choi, 1989, p. 29).

time. The previous government's economic stabilization measures curbed the rise in the income of workers and farmers. Instead, conglomerates benefitted from exports and received financial and tax support during industrial rationalization. In return for trade liberalization, large companies expanded overseas export markets and dominated the domestic market by bringing in imported goods. However, the agricultural sector and small and medium-sized enterprises were hit hard (B.-S. Choi, 1989, p. 43).

The Roh government was a continuum of the Chun government; thus, the Roh administration had contradictory tasks to pursue economic democratization while inheriting economic stabilization and liberalization. Like Chun, Roh's political base was the military elite, bureaucrats, and chaebols. Chun intervened in the formation of the first cabinet of the Roh government because he wanted the new president to succeed his economic policies; as a result, seven ministers of the Chun government remained in office. For instance, SaKong Il, SPSEA and Minister of Finance, and Rha Woong-bae, Minister of Commerce and Industry under the Chun government, continued to serve as the Minister of Finance and the DPMMEPB, respectively, under the Roh government (Yi, 2011, pp. 52–53).

Economic liberalization enlarged with the trade pressure of the US. Making price stability a top priority, the Roh government actively liberalized import and interest rates and opened the stock and exchange rate markets. The liberalization of imports of manufactured goods, which had begun in 1983, accelerated, expanding the import liberalization rate of manufactured goods to 99.5% in July 1988. Machinery, electronics, steel, metals, and chemicals were completely liberalized; along with the liberalization of imports, tariffs and other non-tariff barriers were greatly eased (H. Kim, 1999, p. 393).

The MF implemented the liberalization of interest rates in December 1988 despite concerns about a rise in interest rates, predicting that interest rates would lower because banks' bad loan ratio decreased, the current account recorded a surplus, money would flow from abroad with the appreciation of the Korean won, and the total savings exceeded total investment (Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, pp. 208–209). In early 1989, however, when interest rates soared unexpectedly with price instability, the MF retrieved money through administrative guidance, and the government-controlled financial policy resumed for low-interest rates (Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, p. 210).

The MF announced a phased plan to internationalize capital markets. Under the plan, the government would expand foreign investment funds in 1989, ease regulations on overseas securities issuance in 1990, allow foreigners to directly invest in domestic securities within a limited range and foreign securities firms to set up local branches in 1991, and enable foreigners to invest in domestic stocks and Koreans to invest in overseas securities in 1992 (Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, p. 202). When it came to exchange rates, Korea had adopted a multi-currency basket system in 1980. As the US urged Korea to appreciate the won, however, Korea introduced the market average exchange rate system—the previous step toward the free-floating exchange rate system—in April 1990 (Yi, 2011, p. 448).

Even if Roh succeeded Chun, Roh wanted to differentiate himself from previous authoritarian leaders. Roh thought that the policymaking process and resource allocation should be transparent and democratized. At the first meeting with senior secretaries, Roh said that the Presidential Secretariat should not interfere in the affairs of the administration and that the relevant ministries should be responsible for the major policies (Yi, 2011, p. 25). For Roh, the SPSEA was to provide advice to the president or was a bridge between the president and economic ministries. This was contrary to the Chun era, when Kim Jae-ik had led major economic policies. A heated debate over policies took place at the first economic ministers' meeting. Moreover, government-civilian joint meetings including private entrepreneurs and scholars were frequently held. Journalists could attend the vice-ministers' meeting, which was reported to the public, and where they vigorously exchanged opinions (Yi, 2011, pp. 25–28).

Roh did not pay much attention to the economy because economic indicators were very sound. The DPMMEPB Rha Woong-bae said that he never received any special instructions from the president on the direction of economic management and that the president rarely called him on economic issues (Yi, 2011, p. 55). The problem is that Roh was very politically vulnerable. Roh gained a mere 36.6% of the vote in the presidential election. To make matters worse, the ruling party failed to win a majority in the April 1988 general elections (Clifford, 1994, p. 287).

The opposition-dominated National Assembly pressed the administration and showed off its powers, including the right to investigate the government (Chung, 1994, p. 203); in contrast, the president had no authority to dissolve the National Assembly in the new constitution. The three opposition parties demanded economic democratization (S.-R. Cho, 1996, p. 194). Furthermore, lawmakers often required the government to submit materials and information for parliamentary audits or investigations (Chung, 1994, p. 207). Unlike in the past, after democratization, government officials had to contact the opposition as well as the ruling party to pass policy bills in the National Assembly. In addition, the reaction of the media and civil society in the policy decision had to be considered. These changes were desirable, but policy decisions became slow and complex (Former Official, personal communication, March 27, 2019).

Despite opposition from the EPB, the MF, and the SPSEA, a measure was taken to reduce farm household debts, and politicians in the National Assembly decided a rise in rice purchase prices (Yi, 2011, pp. 90–99). Each ministry became more sensitive to its clients; for example, the Ministry of Agriculture, Forestry and Fisheries acted as spokesman for farmers' interests, and the MCI represented the profits of the industrialists (Chung, 1994, pp. 210–211). The Presidential Secretariat served only as a linkage between the president and economic ministries. While inter-ministry selfishness worked as a centrifugal force, the EPB could not play a pivotal role because the president did not empower the EPB (Chung, 1994, pp. 220–222). The DPMMEPB Rha Woong-bae criticized the teamwork of Roh's first economic team, noting the factionalism of economic officials (Joo, 1998, p. 251).

In Korea, where the president was the head of the government and the leader of the ruling party, the ruling party before democratization had been nothing but a rubber stamp. However, the ruling party's voice grew against the government in the post-democratization. Keeping the upcoming elections in mind, the ruling party emphasized political logic; thus, it was hard for the government to adhere to only economic logic (H. Kim, 1999, p. 379). Although the ruling and opposition parties intervened in economic policies, President Roh did not shield the state apparatuses from political pressures (Chung, 1994, p. 234). The politically burdensome restructuring was not implemented in depth; instead, economic democratization and a balanced distribution of wealth prevailed. Economic technocrats had no choice but to follow the president's decision.

In the course of neoliberalization, President Roh, concerned with economic democratization, ambitiously launched a new economic team consisting of the EPB and the Presidential Secretariat. He appointed Cho Soon, a Keynesian professor of economics at Seoul National University, as a DPMMEPB and Moon Hi-gap, who had led the 1984 budget freeze at the EPB under the command of a neoliberal pioneer Kim Jae-ik, as a SPSEA in December 1988 (Yi, 2011, p. 130). The economic team of Cho Soon and Moon Hi-gap emphasized equity and balance by maintaining a policy stance of stability and pushed for the legalization of the bills on the public concept of land[51]and the implementation of the real-name financial system.[52]

The real-name financial system aimed at realizing transparency and eliminating distortions in the financial transaction, while the public concept of land was not only to realize distributive justice but also to prevent conglomerates from speculating on land. For these reforms, the EPB lowered the GNP growth rate of the Sixth Five-Year Economic and Social Development Plan from 8.2% to 7% and focused on restructuring in pursuit of stability and welfare by expanding health insurance nationwide and significantly increasing the proportion of social security in government spending (S.-R. Cho, 1996, p. 196).

The DPMMEPB Cho Soon criticized neoclassical economics and consistently advocated government intervention and labor-management cooperation in the distribution and welfare system for balanced development. However, like moderate neoliberalists, who argued that direct government intervention should be phased out, Cho Soon asserted gradual liberalization in the industrial and financial

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[51] The bill on the public concept of land included three acts on (1) the Upper Limit on Ownership of Housing Sites, (2) the Return of Development Benefits, and (3) the Land Excess-Profits Tax.

[52] This had already been attempted by Kim Jae-ik and the MF in 1982, but its implementation had been delayed indefinitely due to opposition from the ruling party at the time.

sectors (T.-G. Park, 2004, pp. 50–54). In an interview with the media, Cho Soon emphasized the equity between classes, regions, and urban and rural areas, stabilization of prices and social psychology, and fair market competition (Ko, 1988). In a way, the new economic team's economic democratization through state intervention seemed partly similar to the neoliberal idea that wanted to establish a fair market order and rectify a distorted financial structure. What is clear, however, was that this economic team focused more on distribution and equality than any other former economic policymakers.

Under the banner of economic democratization, the economic team and the business community clashed over interest rates, exchange rates, and money supply. Cho Soon said that structural problems such as unearned income and wealth maldistribution should be addressed first and that correcting the imbalance would be a short- and long-term task for the Korean economy (H. Kim, 1999, p. 391). Cho Soon was expected to be the right person to lead the economic management of the democratic era; however, lacking bureaucratic experience, he had to face hardships over real-world issues. Above all, the presidential power was not fully transferred to the EPB. For example, Cho Soon proposed that the president appoint a minister and a head of the EPB-affiliated research institute as he wished, but the president rejected his proposal (Yi, 2011, pp. 131–132). Hence, the EPB was debilitated without the president's confidence and support and could not coordinate the friction among the economic ministries as a leading agency.

Instead, the ruling party intervened in the economic policymaking process. Representing the growth-oriented and pro-chaebol developmental forces, the ruling party put the brakes on the DPMMEPB's policies. On February 23, 1989, the ruling party expressed dissatisfaction with the EPB's economic policies at a high-level meeting between the government and the ruling party at the presidential office. Cho Soon said that he would continue to tighten monetary volume and curb hikes in public utility charges to stabilize prices. The chief policymaker of the ruling party, Lee Seung-yoon,[53]contradicted that there was no need to overreact to inflation at this time and that there was a lack of investment to address relative poverty. President Roh sided with the ruling party (Joo, 1998, p. 257), which, alongside the business circles, advocated economic growth rather than economic stability and restructuring and insisted on short-term stimulus measures such as interest rate cut, monetary supply, and a sharp depreciation of the Korean won. Cho Soon asked for a press conference to evince that it was impossible to postpone the reform, though to no avail (Joo, 1998, pp. 259–260).

Besides, as in the early 1980s, good teamwork between the EPB and the Presidential Secretariat no longer existed, and there was discord between a Keynesian scholar-turned-DPMMEPB and the SPSEA from the bureaucratic society under the dualized structure of economic management. Cho Soon and Moon Hi-gap were reformists for economic democratization, but if Cho Soon was a theorist, Moon Hi-gap was a bold practitioner. The former strongly opposed the economic stimulus plan by insisting that macro-stabilization should be achieved for reforms, even if it took time. The latter contended that, although economic stabilization was a desirable policy, the government had to accept some demands from the business community.

Criticizing Cho Soon's inflexible policy decisions, Moon Hi-gap recognized that short-term stimulus was a necessary evil to make reform a success (H. Kim, 1999, p. 391). In an interview with the media, Moon Hi-gap denied conflict with the

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[53] Lee Seung-yoon was a growth-first advocate. In 1980, he had stepped down from the Minister of Finance, saying that he could not kill the economy after being at odds with a neoliberalist, Kim Jae-ik.

DPMMEPB and asserted that he would not push ahead with his future work by weakening the role of the EPB. He expected that Cho Soon's knowledge and his sense of reality as a bureaucrat could complement each other (C. Choi, 1989); nevertheless, the disparity between the two remained. For instance, Korea Heavy Industries was supposed to be given to Hyundai Group through privatization. Cho Soon was well aware of the inefficiency of public enterprises, but he believed the concentration of economic power to be a more serious problem. He tried to prevent Korea Heavy Industries from falling over to a chaebol company (Yi, 2011, p. 343). Even though Cho Soon decided to make Korea Heavy Industries a public enterprise, Moon Hi-gap reversed Cho Soon's decision (Yi, 2011, pp. 345–346).

Moon Hi-gap, an enthusiastic reformist, conducted the legalization of the bill on the public concept of land and the implementation of the real-name financial system, believing in the president's will. Nevertheless, the public concept of land was criticized by big businesses and the ruling party as a socialist idea (Yi, 2011, p. 265). With rising land prices and mounting social discontent over real estate speculation, the Roh government anticipated that the bill could be an effective means to grab middle-class support. The National Assembly passed the bill on December 30, 1989, which the ruling party and the business community insisted on easing or holding back, and the EPB, the Presidential Secretariat, and the first and second opposition parties sought to strengthen or expedite. For the first time, opposition parties and the bureaucrats cooperated to pass the bill against the ruling party (H. Kim, 1999, p. 371).

In the case of the real-name financial system, Moon Hi-gap launched a preparatory group for the implementation of the real-name financial system in advance under the MF in April 1989. The plan would be implemented from January

1991. At first, the press and academia were in favor of it (Yuksŏngŭro tŭnnŭn kyŏngjegijŏk p'yŏnch'anwiwŏnhoe, 2013, p. 354), but Moon Hi-gap's strong drive drew political resistance from all sides, which put a heavy burden on Roh. Besides, economic indicators also deteriorated significantly. The president wavered because news articles critical of the government came out day after day.[54] Furthermore, within the cabinet, Kim Chong-in, who had gained a PhD in Economics from the University of Münster in West Germany and was the Minister of Health and Social Affairs, personally told the president that the real-name financial system should not be implemented.[55] The president then leaned toward the non-execution of the real-name financial system (Yi, 2011, pp. 218–220). Meanwhile, the ruling party, the business, and the media constantly highlighted a *total crisis* of the Korean economy.

Not only was there resistance from the ruling party, business circles, and the media, but economic democratization had a slim chance of success. The president had no fixed philosophy on economic management, did not settle conflicts inside the economic team, and did not protect the economic team from political pressure. In this situation, policies were not properly coordinated among the EPB, the Presidential Secretariat, and the MF. The MF per se, in charge of the real-name financial system, was very passive. An MF official said that it was the EPB that had mentioned the real-name financial system and that the MF thought it was too early. The preparatory group for the implementation of the real-name financial system was under the MF, but the MF did not want it to be led by the Presidential Secretariat or the EPB (Yi,

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[54] President Roh often replaced policymakers to avoid public criticism. For example, compared to the Chun government, the average tenure of economic policymakers was shorter under the Roh government. This greatly undermined the consistency of the policy (Yi, 2011, pp. 109–110).
[55] Kim Chong-in was Roh's economic advisor. In 1982, he had told Roh, the then Minister of Home Affairs, that the real-name financial system could not be allowed and that Kim Jae-ik's attempt at the real-name financial system would bring many political risks and damages to the economy.

2011, p. 223).

Real estate prices rose, and foreign currency inflows from the surplus in the current account raised fears of inflation. After the end of 1989, the two-digit export growth rate, which had been recorded since 1986, turned into a single-digit. Moreover, the current account balance decreased from $14.2 billion of surplus in the previous year to $5.1 billion (S.-R. Cho, 1996, p. 198). The wage increase rate after democratization was 8.3% in 1988 and 11.3% in 1989, hovering above 8.0% and 10.0% in labor productivity growth in the same period (D. Yoon, 2012, p. 92).

Technically, it was not a serious economic crisis like in the late 1970s, even if the competitiveness of exports declined owing to the Korean won's appreciation, wage hike, inflation, and the increasing prices of raw materials. Later in his memoirs, Roh said that the demands of labor did not seriously damage the economy and that the competitiveness was somewhat diminished, but it was a cost for realizing democracy (Roh, 2011, pp. 34–35). However, the government's authority, which had yet to find proper policy measures to cope with the sudden deterioration of economic indicators, described it as the crisis of the Korean economy at the time (Jong-kyu Lee, 2000, pp. 199–201).

Meanwhile, successive visits to Pyongyang by an opposition lawmaker and a leftist activist gave the president a chance to make a political and economic turnaround. Exaggerating the North's threat to social order and national security, President Roh and the ruling party changed the direction of economic policy. The ruling party imputed the slowdown in exports and the loss of international competitiveness to wage increases after democratization. Chaebols pressured the Roh government to withdraw its drastic drive for economic democratization and referred to it as the direct cause of the economic crisis. President Roh and the ruling party found a political breakthrough. In January 1990, the ruling party merged with the right-wing political parties: the Reunification Democratic Party and the New Democratic Republican Party. With the merger, the Democratic Liberal Party, a giant ruling party, was born, which helped Roh overcome a political impasse (S.-W. Yoon, 2016, pp. 21–22).

Roh became impatient because he had not made any economic achievement halfway through his term. Replacing Cho Soon and Moon Hi-gap on March 1990, Roh appointed Lee Seung-yoon—a growthist since the Park regime and the chief policymaker of the ruling party—as a DPMMEPB and Kim Chong-in as a SPSEA. Both had opposed Kim Jae-ik's neoliberal policies in the early 1980s.[56] They pushed ahead with the policy of oppressing labor movements, deferring economic democratization and returning to growth-oriented policy through monetary management. Lee Seung-yoon relaxed the public concept of land and postponed the implementation of the real-name financial system altogether, meeting chaebols' demands (S.-R. Cho, 1996, p. 201). As mentioned earlier, Kim Chong-in opposed not only the real-name financial system but also the public concept of land.[57]

Have diagnosed the Korean economy as a total crisis, the DPMMEPB, Lee Seung-yoon, said in his inauguration speech that it was impossible to catch all four rabbits—inflation, growth, the balance of payments, and equity—at once and that he would first focus on growth (H. Kim, 1999, p. 392). However, the Presidential Secretariat took the initiative in economic policy vis-à-vis the EPB. The SPSEA Kim

[56] In his memoirs, Kim Chong-in described Kim Jae-ik and his colleagues as idealists who did not know the real world and criticized their excessive austerity measures as short-sighted ones that burdened the next administration (C. Kim, 2020, pp. 150–152, 157–163).

[57] Later, Kim Chong-in continued to argue that the public concept of land was a word coined by the EPB in 1989 and that such a concept exists only in fiction and not in economics ("T'ojigonggaenyŏmŭn," 2005).

Chong-in stated that the DPMMEPB was a practical coordinator and was not in charge of economic policy and that the president should take care of major economic policies under the presidential system (Yi, 2011, pp. 133–134).

In April 1990, *Comprehensive Economic Measures* were announced; these aimed to reduce short-term corporate costs by controlling wages in order to restore price competitiveness of large companies for exports and to resolve the shrinkage of investment by easing credit regulation and increasing currency supply. Along with the increase in domestic demands, the growth rate of the GNP rose from about 6% in 1989 to 9% in 1990 as shown in Table 6. However, this growth was due to monetary expansion rather than to the recovery of industry's international competitiveness. Trade balance went into the red by almost $2.2 billion in 1990. Such growth-oriented policy through short-sighted expansionary measures accelerated inflation, distorted the market structure, and retreated restructuring to strengthen industrial competitiveness in the mid- and long-term (S.-R. Cho, 1996, p. 202).

Table 6. Major Economic Indicators Under the Roh Government

	1988	1989	1990	1991
Annual GDP Growth Rate (percentage)	11.5	6.2	9.2	8.5
Annual Growth Rate for Exports (percentage)	12.5	-3.8	18.4	12.8
Annual Growth Rate of Imports (percentage)	12.8	16.3	29.1	11
Current Account (in 100 million of $)	141.6	50.5	-21.8	-87.3
Consumer Price Index (percentage)	7.2	5	9.4	9.3

Note: Adapted from *Kyŏngjewigi: Wŏnin'gwa palsaenggwajŏng* [Economic crisis: Causes and occurrence process], by Jong-kyu Lee, 2000, p. 200, Han'gukŭnhaeng t'ŭkpyŏryŏn'gushil.

Besides, the president stuck to his campaign pledge, which was to build two million housing units; as a result, the construction industry overheated, and real estate speculation was rampant. Still, none of the ministries officially raised questions about the president's focal project (H. Kim, 1999, p. 365).

Resorting to myopic economic stimulus measures, the DPMMEPB, Lee Seung-yoon, was replaced. On February 19, 1991, Choi Kak-kyu, a chief policymaker of the ruling party, took office as a new DPMMEPB. He was a traditional bureaucrat who had experienced the MF, the EPB, the Ministry of Agriculture, Forestry and Fishery, and the MCI.[58] Having rich experience in bureaucracy, Choi Kak-kyu took control of economic ministries. As the current account deficit became chronic, Choi Kak-kyu turned to an economic stabilization policy at the expense of growth (Joo, 1998, p. 275). He and Kim Chong-in, however, disagreed about economic policy: the former set price stability as a high priority of the current economic policy and insisted on selective investment and aggregate demand management, while the latter countered that investment in manufacturing and social overhead capital expansion should be made to boost growth potential ("Kyŏngjejŏngch'aek tillema," 1991).

Nevertheless, exports did not increase as expected, and the domestic economy tended to deteriorate. Facility investment declined, and economic growth slowed because of the economic downturn in developed countries. Resigning from the DPMMEPB, Choi Kak-kyu argued for the necessity for stabilization measures to continue over the next two to three years. However, President Roh was only forcing the economic ministries to publicize the bright future of the economy because of the upcoming general and presidential elections in 1992 (Joo, 1998, pp. 278–280).

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[58] Under the Park regime, Choi Kak-kyu was the Minister of Commerce and Industry and restored preferential loans that the EPB's neoliberalists had abolished in the 1979 stabilization measures.

Except for import liberalization to promote exports vis-à-vis trade pressure from the US, structural adjustment based on economic stabilization was ignored or shelved by Choi Kak-kyu's successors, who prioritized growth. In turn, in the 1990s, the Korean economy was shifting to an export-driven, growth-first strategy through short-term stimulus.

6.1.2 A war against chaebols

Collaboration between the state and the business, an essential element of the DS, was the vertical relationship in which the state had the upper hand. However, the past state-business relations changed after democratization. In Korea's big business-oriented economic structure, chaebols had a significant impact on economic indicators such as export performance and current account and were the main source of national finance (Lim & Lee, 2020, p. 227).

Against this backdrop, chaebols tried to break away from the state's interference, wanting to neutralize the state's role and lead the national economy under their own initiative by receiving preferential treatment (B. C. Lee, 2016, p. 358). Chaebols began to recognize political elites as objects to control. In the general election in April 1988, several figures related to the FKI entered the National Assembly; in addition, the FKI held private meetings with politicians and government officials and conveyed its opinion on government policy directions, political funds issues, and labor disputes. Moreover, marriages between politicians and chaebol families became common; President Roh's daughter, in particular, married a son of Sunkyong Group in May 1988. Chaebols used these connections as political shields (Clifford, 1994, p. 326).[59]

In fact, controlling a high proportion of the business community, the fathers of Roh's son-in-law and daughter-in-law met privately with the president and affected the bureaucratic society (Yi, 2011, pp. 119–120). The Roh government's selection of Sunkyong Group as the second mobile telecommunications operator sparked controversy over preferential treatment ("Idongt'ongshin," 1992), and the collusion between the state and the business community was maintained. After holding a meeting with the ruling party, the FKI, as a peak association of big businesses, declared in a press conference that it would legalize political funds and selectively donate them only to political parties defending the free economic system ("T'ŭkchŏngjŏngdangenŭn," 1988).

This was to sponsor pro-chaebol politicians through money. While the Roh government was losing its regulatory means on chaebols, they were accumulating much of its economic and political capacity; therefore, the ruling bloc was reorganized into chaebol-centered one. After the partial financial liberalization of the early 1980s, chaebols used the non-banking financial institutions that they had owned to mobilize funds and increasingly relied on overseas borrowing. This resulted in a drastic increase in financial independence of chaebols from the state. The total assets of the four major conglomerates increased almost 10 times between 1980 and 1990 (D.-R. Hong, 1996, p. 221).

The FKI actively lobbied lawmakers to thwart the public concept of land and the real-name financial system. Conglomerates were uneasy in uncertain and

[59] Likewise, Roh's son also married the daughter of a conglomerate (Korea Broadcasting System, 1990).

unpredictable situations and chose a wait-and-see investment strategy (Rhee, 1994b, p. 263). Eager to expand the size of the group and diversify business areas, the business community continued to ask the Roh government for stimulus measures, but Roh's economic team could not give up its stabilization policy to improve the structure of the economy. As the DPMMEPB, Cho Soon, blamed the aberrant management of chaebols via interviews with newspapers and a televised address, the FKI responded that the government and the media were working together to put the business world at bay and added that chaebols should correct their mistakes. However, no one was not going to run a business when chaebols were treated as criminals (Yi, 2011, p. 288). Since the state could not use physical force to unilaterally control them, the Roh government needed public support to secure the impetus for a reformation of chaebols.

With chaebols' power and the appointment of business-related persons to cabinet ministers, chaebols influenced the economic policy process. Bureaucratic rationality became rapidly subordinated to the interests of the business (J.-J. Kim, 2004, p. 335). Throughout the 1980s, the FKI made policy proposals to the Roh government on taxation, trade policies, and international relations through its organized power and continued to increase the percentage of those proposals reflected in government policies (Fields, 1997, p. 138). Moreover, their ideological capacity speedily increased. Chaebols published daily newspapers, magazines, and newsletters, founded and operated economic and social research institutes, and entered broadcasting industries to spread their ideology (D.-R. Hong, 1996, pp. 222–223).

While the ruling party and chaebols were opposing the policies for democratization, Roh reshuffled the SPSEA and the DPMMEPB in March 1990. The new economic team postponed the real-name financial system indefinitely in April 1990 and announced comprehensive economic measures. This was a strategy to maximize exports by restoring the price competitiveness of large companies (S.-R. Cho, 1996, p. 202). Although the business community welcomed this move, it was a big miscalculation. The newly appointed SPSEA, Kim Chong-in, was anti-chaebol and advised the president to quickly cope with the growing influence of chaebols in terms of governance (Yi, 2011, pp. 290–291). Even though Kim Chong-in opposed the real-name financial system and the public concept of land, interestingly, he was the one who had written Clause 2 of Article 119 in the 1987 constitution, which implied economic democratization as below:

> The State may regulate and coordinate economic affairs in order to maintain the balanced growth and stability of the national economy, to ensure proper distribution of income, to prevent the domination of the market and the abuse of economic power and to democratize the economy through harmony among the economic agents. (Constitution of the Republic of Korea, 1987 art. 119, cl. 2)

The term *war against chaebols* was openly used. Having studied economics in West Germany, Kim Chong-in believed that neoliberalism implied properly establishing a market order by eliminating factors hindering the free-market economy rather than by maximizing corporate freedom and pursuing globalization (C. Kim, 2020, p. 179). Large companies spent their money from exports on real estate speculation.[60] Kim Chong-in judged that the economy could do nothing without eradicating real estate speculation and suggested to the president that active measures should be taken through cooperation with big businessmen. On March 27,

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[60] Owners and their families of the top 30 conglomerates possessed 77% of Korea's total private land (E. M. Kim, 1997, p. 192).

1990, Roh invited the chairmen of the five major conglomerates to the Presidential Palace and asked them not to speculate in real estate (Yi, 2011, p. 292).

The president wanted chaebols to sell part of their properties voluntarily; however, as chaebols were silent, Kim Chong-in went to the FKI to warn them. The MCI also informed them that one or two groups could be sacrificed by way of exemplary punishment. On May 8, 1990, an intensive measure under the direction of Kim Chong-in forced 49 conglomerates to sell off non-business properties within six months ("49kaejaebŏl," 1990). On May 10, 1990, the 10 largest conglomerates issued a resolution that would accept the government's demands, including the sale of their non-business land ("10taejaebŏl," 1990). It was an incident in which rising chaebols succumbed to the Roh government and public opinion. Nevertheless, chaebols exerted various forms of pressure on Kim Chong-in and lobbied people around the president, denouncing him as a communist (C. Kim, 2020, pp. 239–244).

Chaebols' discontent reached its peak. In October 1990, during a dinner at the Presidential Palace, chaebols criticized economic policymakers and praised former Presidents Park and Chun as excellent presidents who had helped businesses; in contrast, they criticized the incumbent government's chaebol-regulated policies. Roh left in anger (Yi, 2011, pp. 321–322). Following the real estate measures, the Roh government prepared intensive restructuring of chaebols in July 1990, when Uruguay Round[61]was underway. Policies to enhance the competitiveness of the manufacturing sector began to be sought in preparation for market opening. To this end, Roh paid much attention to setting up an advisory council on science and technology; furthermore, the government supported industries, private and university

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[61] The Uruguay Round refers to trade negotiation aimed at resolving the problems of the GATT that led the global trade order and transforming it into a multilateral trading organization.

research institutes and state-run think tanks shared roles in research and development, and technical professionals were fostered (Chung, 1994, p. 249).

In June 1991, the Roh government implemented the *Core Business System*, according to which the 30 largest business groups should select three core businesses. Except for selected core businesses, the government would strictly regulate loans to the rest of the affiliates, thereby encouraging business groups to invest in and specialize their core sectors. Ultimately, the state would directly intervene to reinforce Korea's industrial competitiveness and ease the concentration of economic power (D. Yoon, 2012, p. 94). Directing the core business system, Kim Chong-in noted that despite the rise in wages, business groups were relying on the government without self-rescue efforts to reduce labor costs by increasing efficiency and productivity and by developing technology (G. Cho, 2007, p. 298).

Proponents of the system acknowledged the government's crucial role in improving international competitiveness. However, the FKI contended that the policy through financial regulations could not work and that the industrial specialization by administrative guidance would eventually lead to entry restrictions, deepening monopoly, restricting competition, and weakening competitiveness. In particular, the FKI argued that the policy of industrial specialization would not match a new phenomenon in which industries were converging. Nevertheless, the core business system was executed (Chŏn'gyŏngnyŏn, 2001, p. 432).

Contrary to the government's expectations, however, the core sectors of chaebols were concentrated in some heavy and chemical industries such as shipbuilding, electronics, automobiles, and construction. In addition, the lifting of credit restrictions on these sectors resulted in over-investment. Some business groups used their core businesses as a means of financing their affiliates, which would contribute to their insolvency (D. Yoon, 2012, p. 155). Chaebols deepened their concentration of economic power by increasing bank loans to grow their size rather than to strengthen their international competitiveness.

Table 7. Average Number of Affiliates of Chaebols

	1988	1989	1990	1991
Average of the five largest chaebols	33.2	36.8	40.8	42.6
Average of the 30 largest chaebols	17.3	18.7	19.0	20.5

Note: Adapted from *Chaebŏrŭi tagak'wawa kyŏngjeryŏkchipchung* [Chaebols' diversification, market structure, and aggregate concentration], by I. Hwang, 1999, p. 36, Han'gukkyŏngjeyŏn'guwŏn.

Meanwhile, in the early 1992, the Roh government prepared a *New Industrial Policy* to reorganize chaebols because loan regulations to large companies did not work. Focusing on stabilizing the economy, the DPMMEPB, Choi Kak-kyu, directed the KDI to conduct research in January 1992. The KDI drafted policies based on the report of Alice Amsden, a renowned scholar who buttressed state-led economic development. According to the report, Korea would need proper government intervention rather than market mechanisms. As a policy alternative, it proposed converting the bank debts of chaebols into shares and establishing a semi-public institution to take over chaebol debts. However, the new industrial policy ran into resistance from the business community. In April 1992, the EPB suspended this policy as the ruling party failed to win a majority in the 1992 general elections. The EPB avoided friction with the business community to raise political funds for the ruling party before the presidential election in December of the same year (Rhee, 1994b, p. 266).

This set of examples clearly demonstrates that the Presidential Secretariat and the EPB stepped back against chaebols' resistance and political pressure during the Roh government. Consequently, the Roh government was not able to prevent chaebols from horizontally expanding their business areas and failed in industrial restructuring to strengthen international competitiveness of industry. Later, this would lead to over-investment and over-indebtedness of large conglomerates (C. Kim, 2020, pp. 245–246).

Among chaebols, Hyundai Group was the symbolic one that rebelled directly against the Roh government. Its chairman, Chung Ju-yung, regarded the specialization of the industry by guidance of the presidential office as a violation of the transition to the private economy and publicly opposed the core business system (Yi, 2011, p. 313). The Roh government conducted a tax probe into Hyundai Group and announced that the government would collect 137.1 billion won in taxes from it. Chung Ju-yung countered that he could not pay taxes because he had no money (Yi, 2011, p. 315). On January 8, 1992, Chung Ju-yung finally created a new political party and held a press conference to run for the year-end presidential election; then, he revealed that he had offered political donations to the presidents twice a year since the Park government and that he had initially given the Roh government 2 to 3 billion won, raised it to 5 billion won, and, finally, 10 billion won at the end of 1990 ("Nodaet'ongnyŏnge," 1992).

In October 1992, the FKI announced the *New Government's State Operation Desired by the Business Community* and delivered it to each political party. This report urged the government to refrain from the regulatory policy for large corporations, resolve economic concentration problem through the promotion of competition, and let companies autonomously decide on the specialization of industries (Chŏn'gyŏngnyŏn, 2001, p. 429). This indicates that chaebols grew on par with the government enough to enter the political arena, while the government's dominance vis-à-vis the business community waned.

In sum, the president was shaken without a firm belief in the economy and did not delegate sufficient authority to the Presidential Secretariat nor the EPB; moreover, he did not guarantee the autonomy of the economic team. As a reform team, the Presidential Secretariat and the EPB disagreed on the pace and direction of economic policies. In addition, the ruling party intervened in the Roh government's economic policies with political logic. The ruling party and chaebols exaggerated the sluggish economic indicators of the Korean economy and persuaded the Roh government to adopt a growth-oriented economic policy after 1990, setting back the long-term neoliberal restructuring based on stabilization and the establishment of a fair market order. This later cast a blight on the future of the Korean economy, which was obsessed with short-sighted high growth. State-business relations changed significantly; clashes between the government and the business were unavoidable as the state was gradually losing its means of controlling chaebols. Driven by the false belief of "too big to fail," chaebols expanded their scale and diversified their business areas, thereby gaining more independence from the state. Opposing the government's policy, chaebols also influenced politics; consequently, the Roh government's efforts to reinforce the international competitiveness of the Korean industry through the restructuring of chaebols ended in failure. In the post-democratization era, building a new cooperative state-business partnership was left as a critical task.

6.2 Turkey

6.2.1 The twilight of the Özal era

The revised election law before the general elections in November 1987 made it possible for the MP to stay in power for another four years. According to the law, only parties passing the 10% threshold could advance into the parliament, which prevented four minor parties that had obtained a total of 20% of the vote from entering it. This worked in favor of the ruling party; as a result, the MP was able to have two-thirds of the seats in parliament with only 36.3% of the vote (Öniş & Webb, 1994, p. 137). In contrast to Korea's President Roh, who obtained 36.6% of the vote in the presidential election in December 1987 and was politically weak under the opposition-controlled National Assembly until 1990, Özal was able to launch his second term with a stable political base. In the economy, however, Özal had to solve macroeconomic instability—the so-called *mini-crisis*—that occurred before the 1987 general elections, while Korea enjoyed an economic boom.

With relaxed fiscal discipline before the 1987 general elections, expectations for depreciation created a gap between the official and the black-market exchange rates because the MP government underrated the 1987 inflation rate. Therefore, the exchange rate was less devalued than was needed to maintain competitiveness. Furthermore, the demand for foreign currency surged in the unofficial market as the real interest rate on deposits became negative, and the stabilization program was initiated in February 1988 to correct domestic and external imbalances. With austerity measures, the reserve and liquidity ratios of commercial banks were raised to prevent the outflow of the Turkish lira. The MP government no longer guaranteed SEEs to get foreign loans. This stabilization program stopped capital flight and narrowed the discrepancy between official and unofficial exchange rates within months. Unlike in the late 1970s, Turkey did not experience a serious foreign exchange crisis because it had enough foreign reserves and scheduled debt repayments; however, it failed to curb inflation, even though the economic growth rate lowered. The mini-crisis was an indication of continuing economic instability in Turkey (Öniş & Riedel, 1993, pp. 47–48).

With the inauguration of the second MP government, the power struggle between the princes and Erdem, a guardian of the traditional bureaucracy, was at its peak. The MP government stepped up personnel reshuffles at SOBs. A leading prince, Adnan Kahveci, entered a new cabinet. Özal's brother, Yusuf Bozkurt Özal, who had studied electronics and telecommunication in the United Kingdom, worked at the World Bank, and served as the Undersecretary of the SPO during the first MP government, became Minister of State responsible for economic affairs (Erdem's previous position) in the second MP government. Having controlled SOBs, Erdem moved to the post of the Deputy Prime Minister in the new cabinet but had no real power over the economy. Yusuf wanted to put the princes in key positions at SOBs, and his wishes came true. Backed by Yusuf, the princes undertook financial reforms by introducing an American-style banking system and relegated Erdem's traditional bankers to less important positions. For instance, a young prince named Tugay Özkan, who had gained a PhD in Electrical Engineering and Economics from MIT in the US and worked at the World Bank, was appointed director of Export Credit Bank (Dalgic, 2012, pp. 150–152). As director general of Ziraat bank, another prince, Coşkun Ulusoy, transformed the bank into a competitive one and cleared up bad debts in 1988 (Heper & Sancar, 1998, p. 155).

Serving as a director of Emlak Bank, Bülent Semiler, who had worked at the World Bank and American Express Bank, probed the Banker's Crisis in 1982 and revealed Erdem's name to the media as a culprit. Erdem gave Prime Minister Özal an ultimatum to oust Semiler. Although Özal dismissed Semiler from the director general of Emlak Bank, he placed Semiler as his advisor responsible for SOBs. During the Banker's Crisis in 1982, when Erdem, the then Minister of Finance, had resigned, Özal had also stepped down from his post. However, this time Özal did not take Erdem's side. In the early 1989, Erdem resigned from the Deputy Prime Minister. Although the princes' arch enemy was removed, Özal did not support the princes categorically because the traditional bureaucrats still performed a role in state apparatuses (Dalgic, 2012, pp. 161–162). However, this shows that Prime Minister Özal buttressed the princes tied with his family rather than his first generation of bureaucrats who had been with him; further, it indicates that he complied with the World Bank's emphasis on non-interventionist banking management in the late 1980s.

Given that the public sector was responsible for over 50% of total fixed capital formation and about 40% of total value added in the manufacturing in the Turkish economy throughout the 1980s (Öniş, 1991a, p. 164), privatization of the SEEs was the most important issue to the MP government. The political elite expected that privatization could improve efficiency and develop the capital market and that, in turn, the development of capital markets would sustain large-scale privatization. Privatization through the capital market was also consistent with the MP's political aim of integrating the middle class into the privatization process by distributing property ownership to the society (Öniş, 1991a, p. 154).

The MHPPF in charge of the privatization excluded other major economic ministries in policy decisions. Prime Minister Özal chose Gültekin, who had served as director of the research department at the Central Bank after Saraçoğlu, to be the director of the board of MHPPF in 1987. Cengiz İsrafil, who had worked at Morgan Guaranty Trust, which had drafted the privatization plan in 1986, was appointed vice-director in 1988. However, the two expressed differences in the steps and methods of privatization. Gültekin thought that privatization should start after inflation and economic indicators were stabilized and once opposed the privatization of Teletaş—a subsidiary of the Turkish Telecommunication Corporation. However, İsrafil strove to privatize Teletaş immediately. Given that the Istanbul Stock Exchange Market was not mature enough, and austerity measures decreased the share prices, İsrafil's public sale of shares was impracticable. Gültekin's block sales were desirable and consequently proper (Dalgic, 2012, pp. 156–158).

Nevertheless, privatization was to reduce the deficit in the public sector rather than enhance management efficiency (İlkin, 1994, p. 85). In the process, the public criticized the discrepancy between policy pledges and implementation, and not even a single share of the SEEs was sold to employees. Therefore, the princes in charge of the privatization had to be condemned and questioned during the MP rule. In fact, several allegations were raised against the princes after late 1988, such as that they were overpaid in multiple posts of the government and SEEs and offered favors to politicians and businessmen. Moreover, the sale price of SEEs on the privatization list fell short of their real value. In the early 1989, Gültekin and İsrafil left the MHPPF (Dalgic, 2012, pp. 158–160). Contrary to the rosy prospects of the political elite, Turkey's premature capital market constrained the speed and the size of the privatization program during high inflation (Öniş, 1991a, p. 155). Furthermore, the privatization of SEEs by foreign capital faced strong resistance from leftist and rightist opposition parties and business circles (Öniş, 1991a, pp. 172–173).

The year 1989 was a turning point that would adversely affect Özal's political life and the process of neoliberalization in Turkey. Despite austerity measures in February 1988, Turkey's economy went through stagflation in 1989. As a result, in the municipal elections of March 1989, the MP only ranked third with a mere 22% of the vote (Öniş & Webb, 1994, p. 134). After the electoral defeat, the MP government increased civil servants' wages and purchase prices for agricultural products. These policies contradicted the neoliberal restructuring that Özal had declared. Amid slowing exports and economic growth, however, the MP government's economic policies shifted to obtaining political support rather than continuing neoliberal reforms (Gemici, 2012, pp. 47–48). Thus, as illustrated in Table 8, the government spending caused by wage hikes in the public sector continued to increase public sector borrowing requirement (Alper & Öniş, 2003, p. 11).

Table 8. Turkey's Macroeconomic Performance, 1988–1990 (percentage)

	GNP Growth	Inflation (GNP Deflator)	Public Sector Borrowing Requirement/ GNP	External Debt/ GNP
1988	3.6	72.4	6.2	57.8
1989	1.9	73.9	7.1	52.0
1990	9.2	54.9	10.5	44.5

Note: Adapted from *State and market: the political economy of Turkey in comparative perspective*, by Z. Öniş, 1998, p. 501, Boğaziçi University.

With the premiership's lame-duck phenomenon after losing the local elections, Özal made the drastic decision to fully liberalize the capital account on August 8, 1989, amid economic instability and the lack of regulation of the financial system (Öniş, 2004, p. 115). This shock therapy was Özal's final act as prime minister at his discretion against the advice of the Central Bank and the SPO (Kalaycıoğlu, 1991, p. 84). Ignoring the inner circle, his decision raised uncertainty in economic policy (Ozel, 2003, p. 106), and government ministries were also confused. The Treasury Department welcomed capital account liberalization as a solution to the chronic shortage of foreign exchange, whereas the Central Bank was concerned about the risks of foreign currency inflow (Gemici, 2012, pp. 49–51).

Özal expected an opening of capital account to attract international capital, which would boost economic growth. He also anticipated that his decision would promote trade liberalization, thereby curbing inflation through low costs for imported goods. However, the liberalization of the capital account made the Turkish economy vulnerable to short-term and speculative capital (Bekmen, 2014, p. 56; Öniş, 2004, pp. 123–124). Furthermore, Özal's bid for presidency provoked a controversy: he wanted to be a President with administrative powers, as in a presidential system. Yet, under the 1982 constitution, Turkey's parliamentary traditions restricted Özal to be such a president. As the president should be unrelated to party politics, intellectuals and the press objected to Özal's candidacy for president; in particular, the opposition party leader, Demirel, raised questions about Özal's mandate and the legitimacy of the MP government, which had become the majority party in 1987 through the revised election law and was defeated in the municipal elections in 1989 (Heper, 1994, pp. 187–191).

Nevertheless, Özal was elected president by the MP-dominated parliament in October 1989. According to the constitution, he left the MP, but he still managed the MP and directed the government. During the premiership, Özal had been undemocratic in running the MP and evaluated ministerial candidates based on their loyalty to him rather than on their abilities (Özen, 2013, p. 83). Özal selected Yıldırım Akbulut, who was loyal to him as the leader of the MP, and appointed him as Prime Minister in November 1989. Özal had Akbulut form a cabinet with the people he proposed, regularly getting briefed by government officials on the economy. Despite criticism from the media and academia, Özal openly criticized the government's decision not to consult him; meddled deeply in party affairs, he argued that as the founder of the MP, he should warn the incumbent government if it did not perform the policies that he had promised (Heper & Çınar, 1996, pp. 494–495).

With Özal's presidency, the princes were on the road to doom because he could not completely protect them from outside pressure; therefore, the princes began to leave the office (Dalgic, 2012, p. 162). Moreover, the political vacuum after Özal became president in November 1989 created rifts within the state apparatuses, the cabinet, and the MP. As regards the exchange rate policy, the SPO was against the real appreciation of the exchange rate in 1989 and 1990 because of the negative impact on the trade and long-term competitiveness, while the Central Bank and the Treasury were in favor of it. Even in the cabinet, İşin Çelebi, Minister of the State, supported the SPO's viewpoint on the exchange rate issue, whereas Güneş Taner, the other Minister responsible for the economy, sided with the Central Bank and the Treasury Department on the same issue. This dispute over the exchange rate policy was a showdown between the SPO—emphasizing growth—and the Central Bank and the Treasury—focusing on stabilization (Öniş & Webb, 1992, p. 46).

As Akbulut's leadership in the MP expired in June 1991, President Özal attempted to decide the next leader of the MP; however, Mesut Yılmaz, former Minister of Foreign Affairs, not as obedient to Özal as Akbulut, was elected party leader at the party convention. When Yılmaz became prime minister, although he wanted to be on good terms with Özal, he took an independent step from the government and party affairs. Özal again wanted to supervise the government and the ruling party by receiving briefings from ministers and bureaucrats at the Presidential Palace. Amid the escalating friction between the president and prime minister, Prime

Minister Yılmaz sought to maintain the autonomy of the government and the ruling party from Özal (Heper & Çınar, 1996, p. 495).

The MP had embraced both neoliberal and conservative ideologies as a center-right party under Özal's charismatic leadership, but the MP's base of support shifted after losses in the municipal elections of March 1989. With the absence of Özal, a split between conservatives and liberals led to ousting the former from the MP. At the beginning of the 1990s, Yılmaz's MP became a secular party based on the urban bourgeoisie with an identical view on neoliberalism, although this change within the MP narrowed its electoral base (Öniş & Webb, 1994, pp. 176–177). In the October 1991 general elections, as shown in Table 9, the MP came in second after the other center-right True Path Party, which was homogeneous and well organized by Demirel. Since a single party failed to win the majority of seats in the parliament, Demirel chose the Social Democratic Populist Party led by Erdal İnönü as a coalition partner, and a coalition government was born again in November 1991 (Göle, 1994, p. 221).

Table 9. Turkey's Election Results, 1987–1991 (percentage of total votes)

General Elections in 1987		Municipal Elections in 1989		General Elections in 1991	
Party	%	Party	%	Party	%
MP	36.3	SDPP	28.7	TPP	27.0
SDPP	24.7	TPP	25.1	MP	24.0
TPP	19.1	MP	21.8	SDPP	20.8
DLP	8.5	WP	9.8	WP	16.9
WP	7.2	DLP	9.0	DLP	10.7
NWP	2.9	NWP	4.1	SP	0.4
RDP	0.8	RDP	0.9	Independents	0.1
Independents	0.4	Independents	0.4		

Note: MP (Motherland Party), TPP (True Path Party), SDPP (Social Democratic Populist Party), DLP (Democratic Left Party), WP (Welfare Party), NWP (Nationalist Workers Party), and RDP (Reformist Democracy Party).

As a result, eight years of the MP's rule and eleven years of Özal's leadership in the economy came to an end. Nevertheless, the downfall of the MP in 1991 was not the breakdown of neoliberal globalization. The True Path Party and the Social Democratic Populist Party agreed on the irreversibility of the neoliberal policy direction, even though they had different opinions on privatization (Öniş & Webb, 1992, p. 15). However, the coalition government represented the losers of Özal's structural adjustment in the 1980s (Öniş & Webb, 1994, p. 135); thus, emphasizing welfare, the coalition government aimed to increase the redistribution of the labor and agricultural sectors and to reinforce their opinions in the political area (Önder, 2000, pp. 506–507). Compared with the Özal period, more frequent turnover of key officials occurred in the 1990s, and the politicization of the bureaucracy intensified (Heper & Sancar, 1998, p. 157). Therefore, it was uncertain whether neoliberal reforms would proceed well in the 1990s.

6.2.2 The faceoff between the government and the TÜSİAD

In the face of mounting economic instability and uncertainty about the future, the second generation of business leaders, Dinçkök, chairman of the TÜSİAD, criticized the MP government's haphazardous and interventionist policies. In response, the MP government openly criticized the TÜSİAD for crossing the line of legitimate activities. Prime Minister Özal stated that businessmen should not exaggerate the situation in Turkey to make it worse than it really was and that some of them were bringing misfortune upon themselves (Arat, 1991, p. 146). Yusuf, Özal's brother and the Minister of State responsible for the economy, also criticized the TÜSİAD's involvement in economic policies and pointed out that it should only deal with the private sector issues (Buğra, 1994, pp. 249–250).

For a while on the surface, the TÜSİAD seemed to get along with the MP government. In June 1988, Dinçkök said that the TÜSIAD had no trouble in communicating with the government, and the prime minister was very considerate, and that the TÜSIAD and the Minister of State responsible for economic affairs discussed problems and exchanged opinions in the monthly meetings, which was reciprocally beneficial (Önder, 2000, p. 347).

Nevertheless, such frequent meetings did not construct an institutionalized partnership between the MP government and the business. The TÜSİAD still expressed its dissatisfaction with it. Dinçkök distributed a questionnaire to the TÜSİAD members to assess the economic policy. Almost all the responses were quite critical of the MP government's economic policies that would harm the sale of their companies' products (Arat, 1991, p. 146). Some old businessmen, however, showed reluctance to the young chairman's move to attack the MP government. They were afraid of the government that could ruin their businesses discretionarily on the one hand and were grateful to the pro-business government on the other hand. Therefore, they were much more cautious in their relationship with the government. This meant that the TÜSİAD failed to properly aggregate and articulate the opinions of its members. In the meeting to discuss the results of the questionnaire, Dinçkök was alone among the TÜSİAD members. They put individual short-term gains ahead of the interests of the entire business community. After this incident, Dinçkök's position lost ground, and Dinçkök resigned from the chairmanship (Buğra, 1994, pp. 250–252).

In February 1988, the MP government raised interest rates by 65%, and many businessmen complained about this measure due to the high cost of credit. Subsequently, the MP government often changed its interest rate policies. These confounding policies on interest rates were to discipline some private banks deeply engaged in foreign exchange speculation. However, these capricious interest rate policies increased the unpredictability for the private sector, which had to contend with the public sector over loans (Buğra, 1991, p. 158).

From 1980 to 1989, exports and trade volume grew significantly in quantity, but no qualitative advancement of the industry took place. The TÜSİAD was passive in global competition and relied on cheap labor and export subsidies instead of investing in high value-added sectors (Bekmen, 2014, p. 53). Besides, the FTCs' fictitious exports for rent-seeking resulted in social disgruntlement. Consequently, tax rebates and other incentives for the FTCs were lowered constantly and finally eliminated in 1989 (Buğra, 1994, p. 150). Even though the MP government provided exporters with low-interest loans through the Export Credit Bank to decrease public deficits, the Foreign Trade Association representing the FTCs was not satisfied with the new system. Although the Foreign Trade Association requested the MP government to boldly introduce new incentives, regardless of unfriendly public opinion, the MP government refused it. Therefore, relations between the MP government and exporters deteriorated. Decreasing perks and inflation further reduced FTCs' exports in 1989, which led to the failure of the FTC system (İlkin, 1991, pp. 96–98).

As to Özal's radical liberalization in capital account and trade, business community expressed dissatisfaction with the policy decision made by the prime minister without consulting with them in advance and did not agree on its timing for Özal's political goal (Kalaycıoğlu, 1991, p. 84); in particular, the TÜSİAD opposed the liberalization of capital account and imports. Following Dinçkök, Cem Boyner, the young chairman of the TÜSİAD, started to bitterly criticize the MP government's unreliable and unreasonable economic management (Gemici, 2012, p. 51). He stated that the liberalization of capital account and imports in August 1989 would not protect domestic industrialists against foreigners. However, just like the incident of Dinçkök's questionnaire, some TÜSİAD members were scared that Boyner's remarks would be seen as the opinion of the whole TÜSİAD and thus did not like him. Big businessmen still relied on Ankara's decision and individually maintained their relations with the MP government (Süzer, 2001, p. 90). For instance, when scholars' report sharply condemning economic policy on behalf of the TÜSİAD was published, the TÜSİAD contended that the report was the view of the scholars rather than its own (Gülfidan, 1993, p. 103).

As such, intergenerational disagreements within the TÜSİAD became an obstacle to convey a united voice to the MP government in contrast to the FKI's cohesiveness in Korea. In Turkey, it was even more difficult for the business world to cooperate with each other and to coordinate mutual opinions against the MP government. The enmity between the TOBB and the TÜSİAD continued. When there was a rumor that the TÜSİAD tried to unify the TOBB, the president of the Istanbul Chamber of Industry, Nurullah Gezgin, argued for the harm of the TÜSİAD to the Turkish economy and its shutdown. In 1989, however, new president Memduh Hacıoğlu of the Istanbul Chamber of Industry put Dinçkök, the then chairman of the TÜSİAD, and several heads of big holding companies on the list of members. Some members supporting Gezgin thought that the TOBB was becoming the TÜSİAD (Buğra, 1991, p. 253).

As for privatization, the TÜSİAD opposed the government's privatization without prior consultation and information provision, proposed the establishment of a consultative body composed of labor unions, academia, and the private sector, and was wary of the entry of foreign companies that would take a monopolistic position through privatization (Ozman, 2000, pp. 33–34). Thus, business circles cast doubt on the MP government's privatization program (Öniş, 1991a, p. 173).

Tensions between the MP government and businesses did not ease. Business circles raised the need for political activity, ranging from the formulation of sound policies for the business in the parliament and direct political actions against the prime minister to secure the interests of the business. Then, a war of words broke out between Taner, the Minister of State responsible for economic affairs, and Boyner, the chairman of the TÜSİAD. Not listening to the TÜSİAD's predicament, Taner criticized the incomprehensible selling price of Boyner's company and insisted that Boyner come out and compete in politics (Heper, 1991a, pp. 172–173). Boyner argued for early general elections, accusing politicians of not considering the long-term interests of the society. As a result, Boyner was summoned and investigated by prosecutors for his illicit political speech (Buğra, 1991, p. 250).

With the decline of the MP, controlled by the government, the TOBB also harshly slammed the MP government's economic policies generating high interest and inflation. The TOBB election for a new chairman in 1990 was a proxy war between the MP and the opposition party. The True Path Party supported Enis Yalım Erez as their candidate; however, as Ali Coşkun backed by the MP resigned his candidacy, Erez was elected as a new chairman of the TOBB. Like the TÜSİAD, the TOBB criticized the MP government's insensitivity to the suffering of the people (Heper, 1991a, p. 168). After the opposition-backed candidate won the TOBB election, hard liners on the business community gained ground in the MP. As a public-private consultative body, at first, Taner proclaimed that the government would set up a business council and that economic policy decisions would be made via the monthly meetings between this council and the MP government. One month later, he added that the dialogue would be permanent, but Taner did not call the chairmen of the TÜSİAD and the TOBB to the next meeting, and the MP government chose to handle the business community relentlessly again (Heper, 1991a, p. 173).

Amid the confrontation between the MP government and the TÜSİAD, the opposition parties and the media were also critical of the political remarks by the TÜSİAD. When Sakıp Sabancı, who had served as a chairman of the TÜSİAD, lauded the MP government, the True Path Party and the media denounced Sabancı's statement as inappropriate, saying that the industrialist was trying to intervene in politics. The media also reported that the TÜSİAD's publications on education went too far (Heper, 1991a, p. 169). However, Sabancı said that the business community tried to persuade the government to adopt the business proposal, but the government's decision was the opposite of that of the business community (Heper, 1991a, p. 176). After Boyner, the new chairman of TÜSİAD, Bülent Eczacıbası, took a moderate attitude toward the MP government in public and attempted to directly meet ministers and top bureaucrats through personal channels in an uncertain business environment. However, this non-institutionalized meeting with the state elite was not effective for the TÜSİAD in the long run, and the TÜSİAD's grievance against the government rose (T. İ. Aydın, 2001, pp. 57–58).

In this way, the clash between the MP government and big businesses intensified further in the late 1980s and early 1990s. Nevertheless, Özal's decade gave various benefits to big businesses, even though the MP government did not reflect the TÜSİAD's opinion in the phase of policymaking. Holding companies with their own banks were able to deal with the high-interest rate, or large FTCs could enjoy subsidies (Süzer, 2001, p. 90). In the early 1990s, business circles still complained that the MP government formulated economic policy without prior consultation with them. Until the end of the MP rule, the relationship between the state and businesses did not turn productive and cooperative through institutionalization. After the coalition government was born in 1991, clientelism in the state-business relations increased further as in the past (Heper & Keyman, 1998, p. 268).

In sum, with the victory in the 1987 general elections, Özal overcame the mini-crisis through stabilization and gained political momentum to push for economic liberalization in the late 1980s. However, policy decisions still concentrated on the prime minister and a handful of the princes subordinate to Özal. Without being entrusted with economic policies by the prime minister, they neither secured bureaucratic autonomy despite their expertise in free-market economy nor communicated with the rest of bureaucracy. Such a decision-making system without sufficient consultation and deliberation in advance amplified the uncertainty and arbitrariness of economic policies. The ongoing stagflation led to a fall in support for the MP government. The MP's defeat in the 1989 local elections dealt a fatal blow to the MP's rule. In the end, the capital account liberalization increased confusion even among main economic ministries. After the election of Özal as President, dualized political leadership between the president and the prime minister weakened the government and divided the MP, and conflicts between the MP government and the business community reached their peak. Policy consultation channels between the state and the business were not created to the last. With the defeat in the 1991 general elections, the market-oriented MP rule came to an end. Even under Özal's strong leadership, Turkey's state capacity was not enhanced in the absence of the bureaucratic autonomy and institutionalized state-business cooperation. Although the most business-friendly MP government pushed for neoliberal reforms, neoliberal globalization was still ongoing. Therefore, it remained a big question whether the coalition government born in 1991 would be able to implement the MP's unfinished neoliberal transformation.

6.3 Comparative analysis

After democratization in 1987, both Korea and Turkey launched their governments in early 1988; thus, this chapter compares how their neoliberal transformation proceeded from 1988 to the early 1990s. Coincidentally, although Korea's Roh and Turkey's Özal came to power with about 36% of the vote, the political and economic situations that marked the two countries before the two political leaders were different.

In the case of Korea, amid the economic boom, the Roh administration with weak political power continued economic liberalization and simultaneously pursued economic democratization demanded by the public and the parliament. With regard to bureaucratic autonomy, as in the previous chapters, the EPB, a pilot agency, relied heavily on the president's trust and full support. For example, having been demoted by President Park in the 1970s, the EPB was able to revive in the early 1980s; it shared the same policy goals as the SPSEA entrusted by President Chun and had good team chemistry with the Presidential Secretariat as a reform team.

However, Roh per se had no firm goal for economic policy. In 1988, he launched a reform team for economic democratization but did not delegate his authority to the Presidential Secretariat nor the EPB nor protect economic policymakers from political pressure. On the contrary, the president listened more to the opinions of the ruling party's chief policymaker and the ever-changing public opinion in the face of worsening economic indices. Under the pretext of security threats and economic crisis, President Roh created a large ruling party and shifted its economic policy direction from economic democratization to a growth strategy through short-term stimulus in 1990. Afterward, the DPMMEPB and the SPSEA became the figures who had opposed economic stabilization and liberalization of Kim Jae-ik and the EPB in the early 1980s; thus, except for import liberalization to avoid trade friction for export promotion, neoliberal policies were less likely to be embodied. Instead, conscious of periodic elections, political elites drove the Korean economy in a growth-oriented direction rather than unpopular stabilization policies and mid- to long-term structural adjustment. Korea should have restructured its economy under the stabilization stance but lost the opportunity in the face of pressure from the ruling party and public opinion.

As for state-business relations, until the Chun government, the state had used physical force, securing an edge over conglomerates. After democratization, however, chaebols reduced their reliance on the government in the financial sector and strengthened their capabilities both politically and socially. The FKI opposed the Roh government's economic democratization. In the frame of the DS relying heavily on chaebol-led economic growth, the Roh government attempted to initiate the state-led measures to enhance large conglomerates' competitiveness through industrial specialization. However, the ruling party relying on chaebols for its campaign funds limited economic policymakers' role in regulating conglomerates (Mo & Weingast, 2013, pp. 18–19). In the pursuit of something too big to fail, chaebols were enthusiastic about quantitative expansion and business diversification. Despite pressure from the Roh government, Chung Ju-yung, the chairman of Hyundai Group, did not give in to political power and declared that he would directly participate in politics. With the rapidly growing influence of chaebols, whether state-business relations in DSs in the post-democratic period would evolve or deteriorate remained uncertain.

In the case of Turkey, Özal was able to gain stronger political power than Korea's president as prime minister supported by the majority of the parliament. Overcoming the mini-crisis with economic stabilization, the market-oriented reforms that Özal had dreamed of could continue, but this was a double-edged sword for him. Özal's second MP government had, as before, a policymaking system concentrated on himself and his entourages, i.e., princes. However, the princes, totally dependent on the prime minister's political fate, did not have their autonomy, ignored laws and rules, and excluded traditional bureaucrats from the policymaking process. A few of them made the Turkish economy internationalized and more efficient based on their expertise, but the more economic policymaking decisions were concentrated in the hands of a few, the weaker was the entire bureaucracy. Major economic policies were implemented by political rationality in accordance with Özal's wishes. Even the privatization of SEEs included an intention to increase the political coalition of the MP rather than the efficiency of the Turkish economy.

In particular, the defeat of the MP in the 1989 local elections in the middle of Özal's term was a turning point of Turkey's neoliberalization. Özal's lame duck led to the princes' downfall; since then, capital account liberalization accelerated economic uncertainty. Özal's election as president caused power struggles between the president and the prime minister and among economic ministries. Despite the need for a long-term stabilization policy to save the Turkish economy from chronic high inflation and debt trap, the MP government adopted expansionary measures to increase its political base. These aggravated the fundamentals of the Turkish economy. Finally, the advent of the coalition government in 1991 marked the end of Özal's era. Given this coalition government's emphasis on redistribution to neoliberal victims, questions naturally arise about whether unfinished neoliberal reforms could last.

As for the relationship between the state and businesses in Turkey, the participation of businessmen in the economic policymaking process and cooperation with the government were continuous requirements of the business community. Taking the helm of the TÜSİAD, the second-generation entrepreneurs openly expressed their discontent, although the TÜSİAD per se was not cohesive as a peak business association. The government-controlled TOBB also complained to the MP government about economic policies, but no institutionalized channel was formed until the MP rule ended in 1991. Given that the MP government was more pro-business and closer to the big businesses than any other governments, it seemed less likely that the post-MP coalition government consisting of a rural area-based party and an etatist party would create institutionalized and cooperative links to reflect the opinions of big businesses in economic policymaking.

Started in earnest in 1980 as a solution to the economic crises in the late 1970s, neoliberal reforms meant the paradigm shift of economic policies and went on steadily and gradually for more than a decade in Korea and Turkey. However, amid a debate over whether the Korean economy was in a total crisis, Korea reverted to a myopic, growth-oriented strategy under pressure from the ruling party and chaebols rather than to an unpopular structural adjustment in the long run. Turkey's second MP government prioritized political rationality in economic policy despite its privatization and capital account liberalization. After the fall of the MP in 1991, the coalition government supported by the losers of neoliberalization in the 1980s was likely to focus on redistribution in economic policies.

In this regard, the neoliberal transformation in Korea and Turkey remained incomplete until the early 1990s, as covered by this chapter. The remaining difficult tasks of neoliberal globalization were handed over to the next governments of both countries.

CHAPTER 7

COMPREHENSIVE COMPARATIVE PERSPECTIVES: DIFFERENT ENCOUNTERS WITH NEOLIBERALISM

This thesis investigates why there was a divergence between Korea and Turkey during the neoliberal reforms in the 1980s and presents the variations of pre-reform conditions as the first hypothesis and the difference in state capacity as the second hypothesis. Then, it proves the first hypothesis through statistical data and remarks of major economic figures at the time, and it verifies the second hypothesis through state capacity based on the DS theory from a comparative historical perspective. As a result of analyzing the two hypotheses, the divergence of Korea and Turkey in the 1980s was not generated by the scale of external shocks per se but by the degree of distortion in the industrial structure and the difference in state capacity, institutionally elicited by the interaction among political leaders, economic policymakers, and business circles. The post-1980 orthodox reforms enabled both countries to overcome the economic crises that had erupted in the late 1970s. Compared to Turkey, however, Korea achieved and sustained economic stability via a high level of state capacity, which laid the foundation for high growth since the mid-1980s. Nevertheless, both countries could not complete the neoliberal transformation until the early 1990s for a dozen years, as covered by this thesis.

Firstly, regarding the variations in the pre-crisis conditions mentioned in the first hypothesis, Korea and Turkey were non-oil-producing countries. Their excessive investment in energy-consuming sectors to upgrade their industrial structures by borrowing foreign debts represented a factor in their economic crises, along with skyrocketing oil prices and rising international interest rates. Even if it was an equally tough time for the two countries after the first oil shock, Turkey defaulted on the interest payment and rescheduled its debt in 1977, accepting the IMF's stabilization programs in 1978 and 1979. However, even IMF programs and SBAs could not revive the Turkish economy because of the chronic structural problems of the ISI. On the size of external shocks, however, Korea suffered more economic damage than Turkey—especially after the second oil shock. This was due to Korea's industrial structure having shifted to heavy and chemical industries.

As shown in Tables 10 and 11, the damage by external shocks on Korea's GDP and balance of payments was greater than Turkey's.

Table 10. External Shocks (percentage of prior-year GDP)

	1974	1979–1981
Korea	-4.0	-6.8
Turkey	-1.1	-1.9

Note: Adapted from *Understanding Korea's macroeconomic policy*, by S. Haggard, R. N. Cooper, and S. M. Collins, 1994, p. 16, Harvard Institute for International Development.

Table 11. Balance of Payments Impact of External Shocks in Korea and Turkey (average annual percentage of GNP)

	1974–1976	1979–1982
Korea	-12.5	-15.0
Turkey	-7.5	-5.4

Note: Adapted from *Adjustment to external shocks,* by P. Hasan, 1991, p. 180, University of California Press.

Even on the absolute scale of foreign debt, which is the biggest element in external shocks, Korea's foreign debt was much larger than that of Turkey. Table 12 indicates that Korea ranked fourth in the world, while Turkey ranked 14th. Relying on foreign borrowing, Korea had pursued EOI for about 15 years and, in turn, was very susceptible to global volatility. Hence, the size of Korea's foreign debt was at an alarming level. Table 12 illustrates that the aftermath of the economic crisis in the late 1970s lasted until 1983, even though orthodox reforms were underway.

Table 12. Debt Indicators for the Largest Debtor Countries, 1983 (in billions of $)

	Total External Debt		Debt to Exports Ratio		Debt to GDP Ratio		Debt Service Ratio	
	Amount	Rank	Percent	Rank	Percent	Rank	Percent	Rank
Mexico	89.8	1	320.7	5	69.9	6	42.5	5
Brazil	89.0	2	365.6	2	29.5	17	52.3	3
Argentina	44.8	3	459.1	1	64.8	8	69.3	1
Korea	40.2	4	132.4	16	53.6	11	18.8	15
Turkey	16.8	14	233.4	7	32.9	14	33.4	10

Note: Adapted from *A case of successful adjustment: Korea's experience during 1980–1984*, by B. B. Aghevli and J. Márquez-Ruarte, 1985, p. 21, International Monetary Fund.

Nevertheless, optimism prevailed over the resolution of Korea's serious foreign debt problem. Unlike the top three countries in Latin America, Korea was not named a problem country ("Han'guk oech'aegyumo," 1983). What is important in a foreign debt issue is the ability to repay rather than the size itself. The indices for evaluating a debtor's repayment ability are the debt to exports ratio and debt service ratio. Korea's debt to exports ratio is the lowest among the countries listed in Table 12; moreover, its debt service ratio was below the risk level of 20%, while Turkey's debt service ratio recorded over 30%. Thus, Korea's repayment capacity was assessed to be better than Turkey's.

How Korea and Turkey were evaluating each other's economies at that time is confirmed by the remarks of major economic figures of both countries. There was a consensus between the Korean government and the FKI that the foreign debt burden should not go so far as to advance to the worst, such as default

(Chŏn'gyŏngnyŏn, 2001, p. 476). In a special talk with a newspaper, Lee Byung-chull, a chairman of Samsung Group, and Chung Ju-yung, a chairman of Hyundai Group, accentuated export promotion for the resolution of foreign debt burden and criticized the ISI, citing Turkey as a negative example (M. Kim, 1983). In contrast to Korean businessmen's cynical view of Turkey's economy, at the last general assembly of the International Economic Consultative Organization for Korea in 1984, Atilla Karaosmanoğlu—Turkish-born vice-president of the World Bank for the East Asia and Pacific region—said that Korea tended to take the foreign debt issue too sensitively and added that the risk level of foreign debt burden would be lowered ("Han'gukŭn oech'aee," 1984). Turkey's debt to exports ratio was over 200%, as shown in Table 12. Although Özal ambitiously started EOI in 1980, it was too early for Turkey to see the remarkable outcome of EOI in 1983.

Therefore, the distorted industrial structure before the economic crises had a larger impact on future reforms than the size of the external shocks. In this vein, Korea's pre-reform industrial structure was relatively more advantageous than Turkey's as it had already pursued EOI in the mid-1960s. Although heavy and chemical industrialization was irrational and inefficient in the 1970s, this policy contributed to upgrading and diversifying Korea's export items in the 1980s. Besides, no matter how much the economic crisis was, Korea's fiscal status was sound because the private sector took charge of exports, investment, and manufacturing. Given that Korea's economic crisis stemmed from high raw material prices and international interest rates, the Korean economy could rebound by export increase if raw material prices or interest rates on the foreign debt fell. At the end, coupled with the success of the stabilization policy, the EOI led by heavy and chemical industries created a golden age for the Korean economy, with good international economic conditions such as the three blessings since the mid-1980s.

Turkey also had structural distortions in industrial sophistication in the 1970s. In contrast to Korea, however, it could not deviate from its public sector-dependent economy throughout the 1980s, even when market-oriented reforms were at the forefront. The inefficiency of SEEs and the ensuing fiscal deficit under ISI augmented foreign debt. Such a vicious cycle repeated, as in the case of Latin American countries. Historically, Turkey once acquired foreign currency from exports of agricultural products in the early 1950s and exports through a devaluation in the early 1970s but did not shift its industrial structure to EOI—the best means of foreign debt repayment. It was not until 1980 that Turkey switched to EOI. Imitating the DS in the 1960s and 1970s, Özal's EOI gave preferential treatment to FTC, but the approach came late and did not work properly. In the 1980s, Korea was exporting heavy and chemical industrial products and evolved the DS toward market-oriented economy by institutionalizing private participation in industrial policy and by consolidating public-private cooperation in the industrial sector. Therefore, pre-crisis conditions were more unfavorable to Turkey than to Korea, which created the neoliberal divergence between the two countries since the mid-1980s.

Secondly, on the state capacity of the second hypothesis, the states led neoliberal globalization in Korea and Turkey in the 1980s, and Korea's state capacity was higher than Turkey's. Paradoxically, the state was indispensable and very instrumental in formulating and implementing neoliberal reforms for private-led economy by eventually reducing state intervention. State capacity had been created by institutional arrangements made for a long time. To gauge state capacity, therefore, it is necessary to reconsider the mechanism that creates it, elicited by political leadership, bureaucratic autonomy, and institutionalized state-business collaboration.

As regards bureaucratic autonomy and political leadership, the Korean case demonstrates that the bureaucratic autonomy of a pilot agency was not given a priori. Represented by the EPB, Korea's Weberian bureaucracy was institutionally created after the 1961 coup d'état. Korea's major economic policymakers were elites selected through merit-based high civil service examinations, not personal connections, and their status was legally guaranteed. Although they worked in other ministries, most of them had graduated from Seoul National University and had esprit de corps as bureaucratic elites. A noticeable change happened in economic policy and management in Korea since the 1970s, when the power of presidential economic advisors grew more than that of the EPB. The status of the EPB as a pilot agency depended on whether it shared policy goals with the Presidential Secretariat under the president and how well they worked together as an economic team.

On the contrary, although Turkey had an outstanding bureaucratic tradition and created the SPO around the same time as Korea, in the absence of political leaders with long-term developmental goals, the autonomy of the SPO succumbed to political pressure, and its cohesiveness was hampered by frequent personnel changes in the 1960s and 1970s. Even under Özal's strong leadership with a long-term economic vision in the 1980s, the political appointment of his colleagues and the princes to high echelons of the government led to the weakening of the overall bureaucracy due to the lack of bureaucratic autonomy and the discord between neoliberal technocrats and traditional bureaucrats throughout the 1980s.

In this regard, political leadership was the key to the bureaucratic autonomy of a pilot agency or of an economic team. This thesis argues that political leaders should have a firm long-term vision of the economy, share it with a pilot agency or economic team that includes the pilot agency and its economic secretaries, delegate economic management to the economic team, protect it from outside pressure, and mediate its internal conflicts to create synergy effects through harmonious teamwork. Korean political leaders were more likely to guarantee bureaucratic autonomy than Turkish political leaders, given the differences in the political contexts; Korean political leaders under authoritarian regimes were less pressured from outside, and Turkish political leaders under democratic systems had to consider the electoral cycle. However, the political leaders per se can be the guardians of economic policymakers on the one hand and the greatest enemy to their autonomy on the other hand. Not free from political interests, political leaders can directly intervene in economic policies by not entrusting economic policies to their economic team, which violates bureaucratic autonomy and rationality. These cases are well illustrated through the examples of charismatic leaders such as Korean President Park in the 1970s and Turkish Prime Minister Özal in the 1980s. With a solid long-term vision, therefore, political leaders should pay attention to economic policies and empower economic teams to do well but should not interfere with them.

As far as state-business relations are concerned, the state's cooperation with the private sector is essential for the success of economic policies in the long run, as the existing DS theory claims. Korea's state-business relationship was more institutionalized and cooperative than Turkey's. In Korea, big businesses—the driving force of Korea's exports, manufacturing, and investment—were integrated into the FKI and were able to present their unified opinions on economic policies and reforms to the government through formal or informal channels at the level of the peak association. The government accepted private-sector opinions in industrial policies. Embedded autonomy appeared and was maintained, even though it weakened along with the growth of chaebols. On the other hand, Turkey's TOBB was controlled by governments and was internally divided. As a purely private association, the birth of TÜSİAD was later than its Korean counterpart; besides, the TÜSİAD was not recognized as a partner in the government's economic policy, and its intersectoral and intergenerational division made it difficult to present uniform opinions to the government in the name of the entire association.

Taking these things into account, this thesis explicates the mechanism of state capacity through a flowchart in Figure 4.

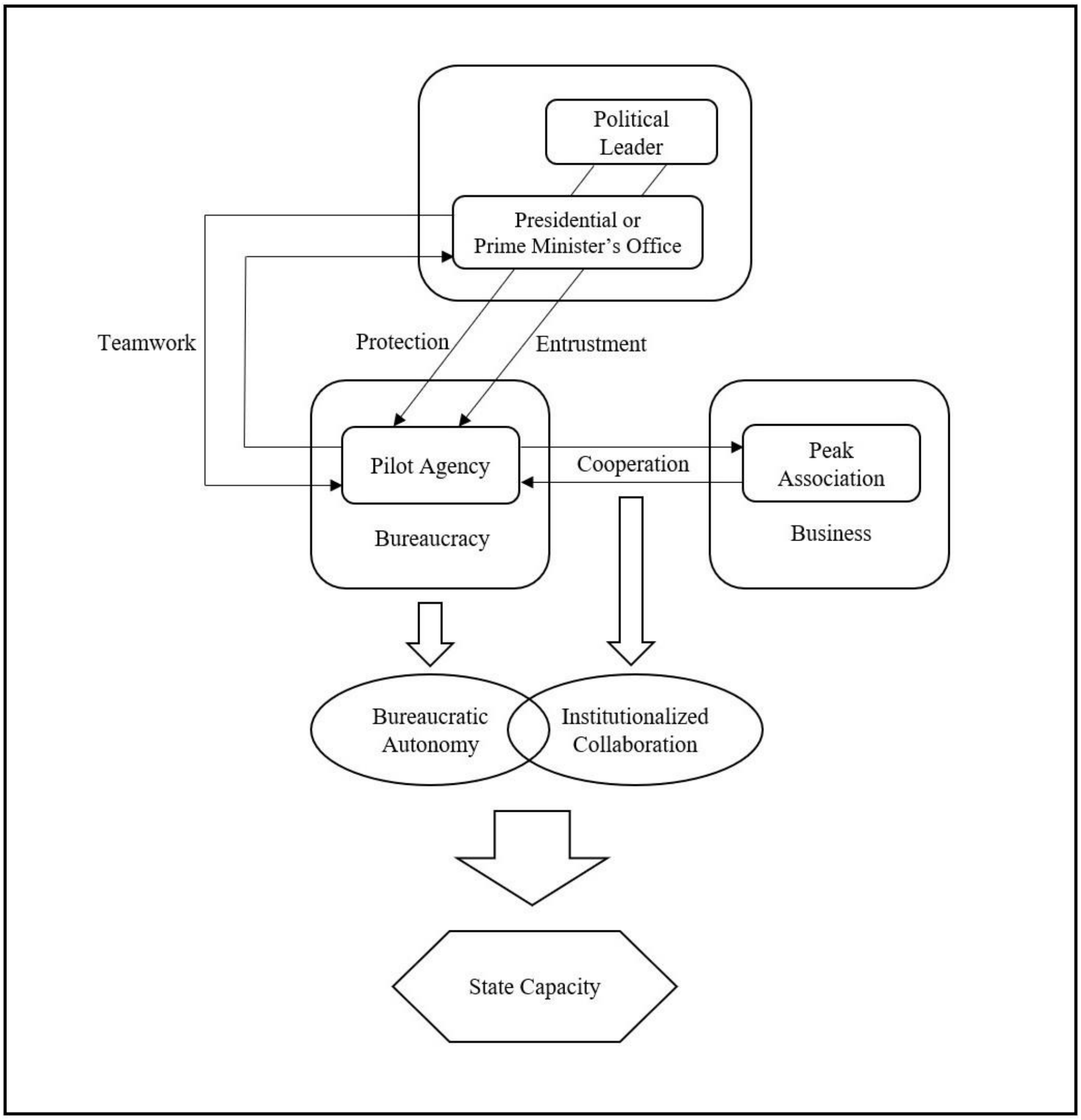

Figure 4. State capacity flowchart

Based on the state capacity of different political and institutional settings, the neoliberal divergence between Korea and Turkey since the 1980s can be clarified. The outcomes of economic stabilization, the first and most important mission of orthodox reforms, are demonstrated in Figure 5. In Korea, the president's absolute confidence in and protection of the SPSEA from outside pressure, good teamwork between the SPSEA and the EPB, and mid- to long-term agreements between state-businesses explain how Korea was able to achieve and maintain economic stability throughout the 1980s. In Figure 5, however, Turkey showed economic instability, compared to Korea. Under the military rule and then Özal's strong premiership, Turkey also stabilized its economy, thereby escaping the economic crisis. Prime Minister Özal directed economic policies and politically appointed his colleagues, who had worked with him at the SPO, in the early 1980s, and the princes after the mid-1980s through personal ties to high positions in major economic apparatuses. Even though the princes were specialized in neoliberalism and were insulated from outside pressure, they were bound to Özal's political fortunes and caused disharmony with the rest of the bureaucracy. Without bureaucratic autonomy and prior consultation and deliberation with the private sector, economic policies from the policymaking system centralized on the prime minister were arbitrary and politicized before the election, whereby economic instability repeated.

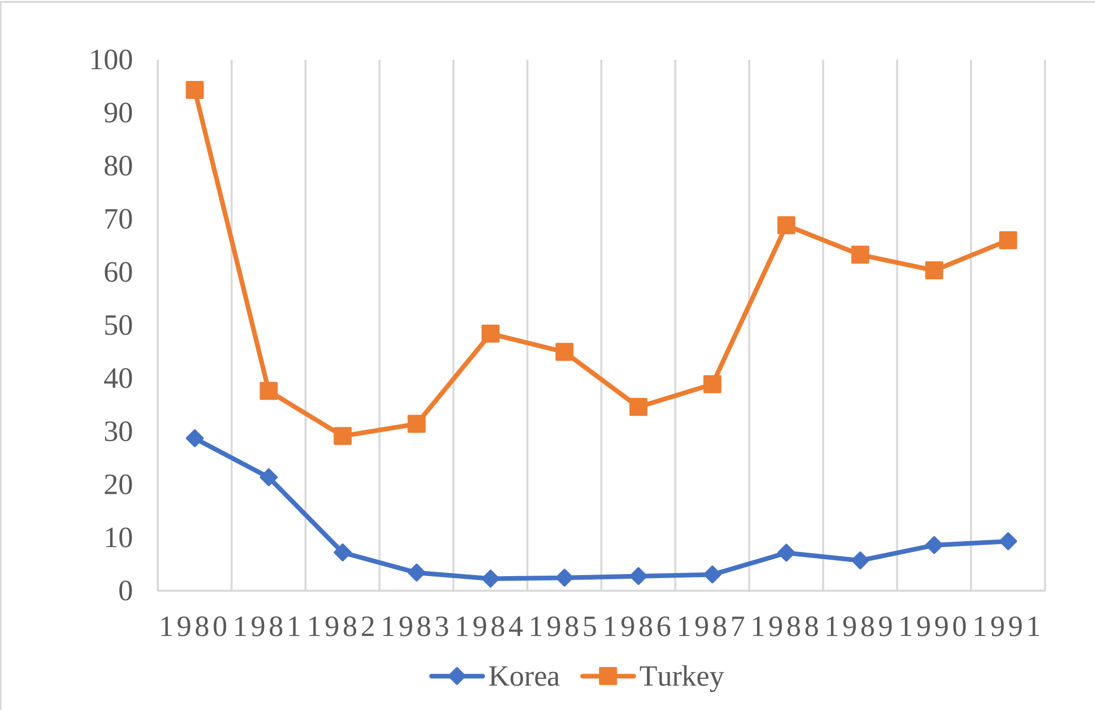

Figure 5. Inflation, consumer prices, of Korea and Turkey, 1980–1991 (annual percentage)
Note: Adapted from World Bank Data, by World Bank, n.d. (https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?end=1991&locations=KR-TR&start=1980).

As shown in Figure 6, Korea and Turkey recorded high economic growth rates through exports with the enhanced international economic environment. However, the differential between the two countries is explicated by endogenous factors.

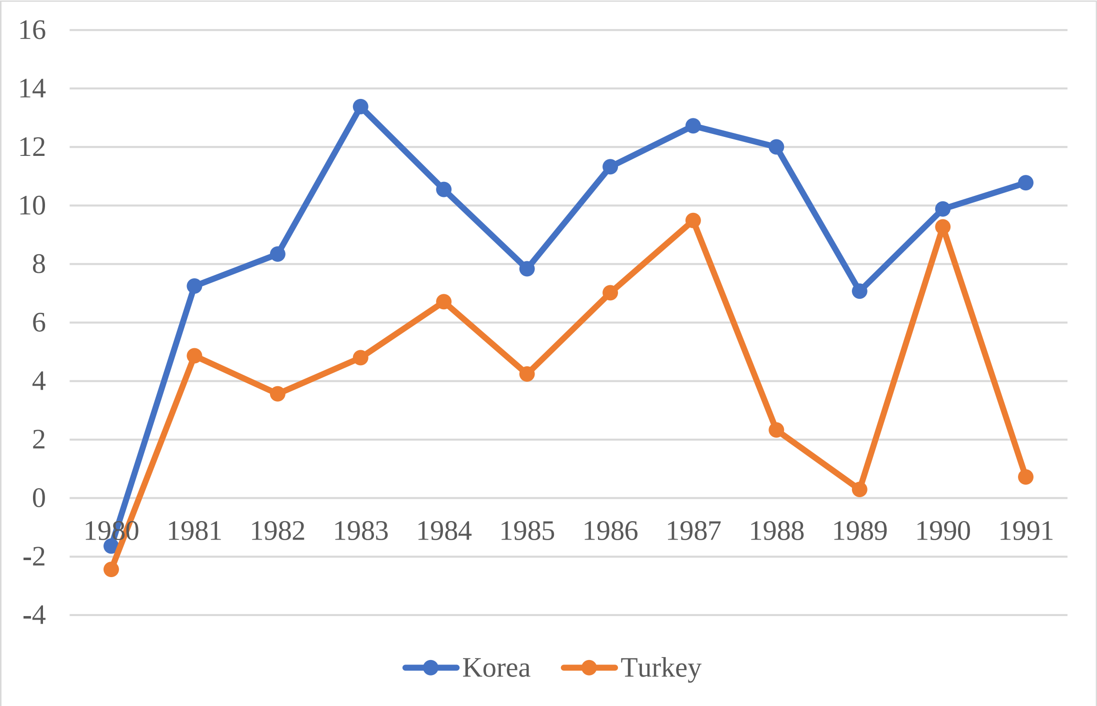

Figure 6. GDP growth of Korea and Turkey, 1980–1991 (annual percentage)
Note: Adapted from World Bank Data, by World Bank, n.d. (https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=1991&locations=KR-TR&start=1980).

Korea's higher growth was possible based on economic stability; in addition, export items were changed to capital-intensive heavy and chemical industrial products, and economic policymakers prepared for a paradigm shift toward a private-led economy. Therefore, private participation in policymaking and public-private consortium in research and development increased. Through these institutional efforts since the mid-1980s, the Korean economy was able to enjoy a golden age in conjunction with the three blessings. Since then, Korea sustained a relatively high growth trend compared to other developing countries, despite discord within the economic team, the controversy over a total economic crisis, and chaebols' resistance to the state from the late 1980s to the early 1990s.

Although exports led economic growth in Turkey, fictitious exports clearly showed that its weak bureaucracy failed to discipline companies, and that increasing exports through subsidies linked to fiscal deficits, which would cause economic instability, cast a dark shadow on the sustainability of economic growth. In particular, Turkey was passive in reducing the public sector and increasing the role of the private sector in the economy, even though it pursued neoliberalism. The state's resources were funneled to nonindustrial areas rather than to the vertical integration of industry. Without making an institutionalized deliberation with the business community in advance, the drastic opening of the financial sector and capital accounts undermined long-term predictability, which made businessmen's industrial investment hesitant.

In sum, the divergence between Korea and Turkey in the 1980s and early 1990s resulted from the differences in pre-reform industrial structure and state capacity. Again, what should be noted are the trilateral relations among political leaders, economic teams, and business circles—the three elements that determine state capacity. As the first condition, bureaucratic autonomy requires political leadership that shares policy goals with economic teams, entrusts and protects economic teams, and controls conflicts among economic policymakers. Such political leadership and bureaucratic autonomy can maximize state capacity through institutionalized collaboration with the private sector. In this regard, Korea was higher than Turkey in terms of state capacity, which explained the differential between the two countries in the 1980s and later.

However, neoliberal reforms fell short of initial expectations and remained unfinished in both countries. Korea could have advanced financial reforms in the mid-1980s, when the state had taken control of the financial sector and chaebols amid economic booms. Nevertheless, it did not make progress in financial liberalization and was not able to establish a fair market order against chaebols' over-investment and horizontal expansion. Turkey was also unable to break the vicious cycle of fiscal deficit by failing to reduce the public sector through privatization, and the sudden liberalization of the capital account had seeds of the Turkish economy's vulnerability. With the weakening of state capacity in Korea during the Roh government and the emergence of a coalition government in Turkey in 1991, the neoliberal globalization of both countries remained in the works for the next governments.

CHAPTER 8

CONCLUSION

Chapter 3 of this thesis historically explored the development paths Korea and Turkey had taken from the 1950s to the 1970s, before the two countries entered the neoliberal era in earnest around 1980. Until the 1950s, the two countries were weak states with low state capacity, and their political leaders had no long-term vision for economic development. Although competent officials existed, there was no pilot agency for them to lead economic policies. The state's relationship with the business community was nothing more than a rent-seeking coalition.

It was the military coup of Korea in 1961 and that of Turkey in 1960 that brought about different development routes between the two countries. In the 1960s, President Park had economic developmental goals in the long run, shared the goals with the EPB, a pilot agency, entrusted economic policies to the EPB, and guaranteed its bureaucratic autonomy. Big businesses set up their peak association encompassing various sectors and spoke with one voice to the government. Institutionally, monthly meetings to promote exports with the business circles gave birth to embedded autonomy. This institutional background enabled Korea to transform itself into a DS pursuing EOI with high state capacity.

Likewise, in Turkey, the SPO was established as a pilot agency after the 1960 coup, drafting economic plans for long-term economic development. However, it was not autonomous and did not function properly as a pilot agency. Prime ministers, especially from the center-right party, had no long-term goals for the economy and had a distrust of bureaucracy. Therefore, the bureaucratic autonomy and coherence of the SPO were violated by the particularistic interests of politicians.

Moreover, political leaders had a contemptuous view of entrepreneurs. Business circles per se were so fragmented that they could not articulate and aggregate their interests vis-à-vis the state. Therefore, government-business cooperation systems could not be created.

In the 1970s, the president's long-term plans for heavy and chemical industrialization clashed with the EPB. Since then, the Presidential Secretariat under the president became de facto a control tower of the economy, and the EPB just took orders from the president and executed them. However, political leaders' direct intervention in economic policy in minute detail and the private contacts between the president and businesses had a negative impact on state capacity. As a result, Korea failed to cope reasonably with the looming economic crisis.

At the same time in Korea, Turkey was moving toward deepening its industrial structure, but the period of coalition governments politicized the SPO, thereby infringing its autonomy. In addition, cooperative partnerships for economic development between the state and the business did not emerge in Turkey. The SPO and any other state apparatus without bureaucratic autonomy and cooperation with business circles were not able to rectify the growing problems of unsustainable ISI by themselves and faced economic crises with external shocks.

As a way of overcoming economic crises in the late 1970s, Korea initiated stabilization measures proposed by the officials of the EPB from below, while Turkey adopted a stabilization program made by Özal, an outsider of the bureaucracy, in discussion with the IFIs. These paradigm shifts from state-led to market-oriented economies could be revived with the advent of military forces in 1980 in both countries.

Chapter 4 of this thesis analyzed how, during their economic crises, the combination of international assistance and the rise of neoliberal technocrats around 1980 made the economic policies of Korea and Turkey converge in terms of economic stabilization and liberalization until the early 1980s in a commonly oppressive political and social atmosphere following the military coups. In Korea, President Chun's complete entrustment of economic policies to Kim Jae-ik in the Presidential Secretariat and the harmonious teamwork between Kim Jae-ik and the EPB stabilized the economy and accelerated economic liberalization vis-à-vis the opposition of traditional bureaucrats and business circles. The FKI maintained a cooperative relationship with the Chun government despite the tension with the military regime in the early days.

In Turkey, the autonomy of Özal and his economic team was secured under the military rule, and neoliberal reforms were continuously implemented. Then, with Özal's strong premiership, the Turkish economy went toward stabilization and EOI. Özal centralized economic policy decisions in Prime Minister's Office and weakened traditional economic ministries; to some extent, this decision-making structure could maximize short-term efficiency. Unlike the strained relationship between the state and chaebols in the early days of Chun's presidency in Korea, the TÜSİAD had close ties with pro-business Prime Minister Özal. However, embedded autonomy was not born out of reciprocal, deep-rooted distrust. The business circles were excluded from the economic policymaking process even in the transitional period to market-oriented economy. It was an opportunity to improve state capacity under Özal's strong leadership, but he only followed the economic policies of the DS and did not bring the DS's institutional mechanism into Turkey.

Chapter 5 of this thesis traced how, after the mid-1980s, Korea’s and Turkey’s efforts to implement the private-led market economy started to diverge by different urgent economic issues and their solutions. State capacity was still critical in the transition to free-market economy. In Korea, although the role of the EPB was reduced, other economic ministries agreed on its policy direction; thus, the state could institutionalize private participation in industrial policy through inter-ministerial policy coordination and promote cooperation with the private sector within the framework of the DS. The consolidation of economic stability, institutional efforts for industrial rationalization, and public-private cooperation in research and development enabled the Korean economy to take a leap forward after the mid-1980s. However, the continuance of government-controlled finance led to sluggish reforms in the financial sector, and the collusion between politics and business implied that the DS’s state-business relations were degenerating into crony capitalism. Meanwhile, democratization was calling for the establishment of a new relationship between the state and chaebols, whose strategic coexistence began to crack.

In Turkey, Özal implanted the princes into the bureaucratic society to accelerate financial liberalization and privatization. Insulated from the outside, the princes did not have bureaucratic autonomy because they were subordinated to the political interests of Özal and his family. Therefore, their relationship with Özal, which was based on personal connections, could not last long. The princes ignored bureaucratic norms and legal procedures, and the political appointment of the princes to high echelons of key state apparatuses contributed to damaging team chemistry with the entire bureaucracy. Moreover, Özal did not recognize the business community as a policy partner. Without checks and a deliberative procedure, the policymaking structure concentrated on Özal and a small number of his aides brought about arbitrary policies, thereby increasing uncertainty about the future. The public sector-oriented economic policies, fiscal deficits, and inflation worsened the business environment. In the absence of established channels of communication, the reciprocal confidence between the government and the business world started to lose ground in the face of upcoming crisis in late 1987.

Chapter 6 of this thesis described how, after full-scale democratization, Korea and Turkey, en route to neoliberalism, went separate ways. Korea's Roh government ambitiously launched an economic team composed of the EPB and the Presidential Secretariat for economic democratization. However, the president neither delegated economic policies to the economic team nor shielded it from the pressure of the ruling party and chaebols. In addition, the EPB and the Presidential Secretariat did not show good teamwork. Swayed by public opinion, the political leadership did not control the trouble inside the economic team; rather, the ruling party and chaebols intervened in economic policy and asserted a total crisis of the Korean economy. Then, the economic policy returned to the export-driven, growth-first policy through short-term stimulus—what chaebols and the ruling party wanted.

After the mid-1980s, chaebols continued to reduce their financial reliance on the government and wielded their political and social clout. The Roh government implemented regulatory policies against them and restrained their horizontal expansion in a bid to stifle the power of big businesses. Chaebols, however, did not obey the state's policies and affected politics through money; thus, the DS's embedded autonomy based on the state's dominance over big businesses also deteriorated.

In Turkey, Özal's case shows why political leaders should have a long-term economic vision but should not directly intervene in economic policies without entrusting the economic team with the authority of economic management. Özal pushed through the princes to privatize the public sector and state banks. A few princes internationalized and made some areas efficient, but their privatization, which neglected reality, was not successful. After the 1989 local elections, Özal's short-term redistributive policy was opposed to the neoliberal stance, and he self-righteously decided that the liberalization of capital account increased the external vulnerability of the Turkish economy and fostered confusion among economic ministries. Furthermore, Özal's election as president caused a split with the prime minister, which led to the MP defeat in the 1991 general elections and the ensuing establishment of the coalition government. However, it was unclear whether this coalition government emphasizing redistribution could complete neoliberal reforms.

The MP government's relationship with a new generation of the TÜSİAD did not improve much. Amid the uncertainty caused by the unexpectable unliteral policymaking of the prime minister, the TÜSİAD called for a dialogue with the government in the economic policymaking process. Nevertheless, the TÜSİAD per se had a generational divide and was unable to effectively convey concerted opinions to the MP government. Cooperative networks between the MP government and the business were not formed until the MP rule ended.

Chapter 7 demonstrated why Korea and Turkey diverged on the way to neoliberalism in the 1980s and beyond through statistical data and historical comparative analysis based on state capacity. It was the pre-reform conditions and the state capacity that created the divergence amid convergence between Korea and Turkey in the 1980s and early 1990s. In other words, pre-reform conditions were worse for Turkey than for Korea, and Korea's state capacity was higher than Turkey's. Nevertheless, a dozen years of neoliberal reforms in Korea and Turkey remained incomplete until the early 1990s. The two countries returned to export-driven, growth-first and redistribution policies, respectively rather than continuing on the path of unpopular stabilization and structural adjustment. With the growing spread of the neoliberal wave around the world, the unfinished tasks of neoliberal globalization were handed over to the next governments.

In conclusion, this thesis criticizes the existing DS literature and discovers new aspects of the DS through Korea's example. The role of the state and the high level of state capacity demonstrated by the DS are essential not only for industrialization but also for market-oriented reforms. The difference in state capacity explains the neoliberal divergence amid convergence between the countries that accepted uniform orthodox reform programs. The remarkable point in the discussion of the DS from industrialization to neoliberal globalization is that the DS was not static nor monolithic but very flexible internally, depending on trilateral relationships among political leaders, economic policymakers, and businesses. The DS's capacity was not always high, even if it was higher than non-DS.

Firstly, many studies on the DS overlook tensions and conflicts inside the DS's bureaucracy and exaggerate the status of the EPB as a pilot agency and its autonomy. The EPB was responsible for making a budget, and its head had the title of Deputy Prime Minister, but it did not have policy tools to command and control economic policies in contrast to the MCI and the MF. It was only in the 1960s that the EPB had its own absolute authority as a super-ministry; when the president did not empower the EPB, this lost its authority as primus inter pares. Rather, since the 1970s, the top decision-making body on economic policies was the Presidential

Secretariat under the president. In fact, the president and the Presidential Secretariat continued to have an edge over the EPB, which was sandwiched between the president and the conglomerates. According to a survey on influential figures in the Korean economy, the president topped the list, and the SPSEA came in second, while the DPMMEPB finished third. Chung Ju-yung, the chairman of Hyundai Group, ranked fourth (Son, 1992). Therefore, in order to analyze the DS through Korea's case, it is necessary to focus not only on the autonomy of the EPB but also to multifacetedly view how the EPB, the president, and the Presidential Secretariat were mutually related.

Secondly, even in the DS, the state and the business circles did not always maintain cooperative relationships for long-term development goals, and there was informal private contact between the two through political funds, as revealed in the case of Korea in this thesis. Ironically, chaebols were not friendly to the free-market economy; the conglomerates opposed austerity measures, policies to establish fair market order, and financial and import liberalization, which are key elements of neoliberal reforms. While rejecting the government's interference and industrial restructuring by citing market principles, chaebols were double-faced, hoping for protectionism and a preferential treatment of the developmental era. In the 1980s, as the strength of a DS, cooperative relations between the state and business were maintained; however, political-business collusion behind them was widespread. Obsessed with the belief of *too big to fail*, chaebols started to increasingly escape the state's control and concentrated on horizontal and quantitative expansion in short-sighted ways. Public-private collaboration supplements the government's economic policies and enhances state capacity as the business secures an edge in information, technology, and human resources over time. Embedded autonomy was no longer sustainable in the late 1980s. Therefore, instead of the embedded autonomy of presupposing the state's superiority over the business world and viewing the relationship between the two as a zero-sum, it is necessary to seek a new state-business relationship of the DS, such as governed interdependence, which reflects the role of the state as a goal-setter and monitor and the status of the strong business community.

Thirdly, as an additional factor affecting state capacity, wealth distribution and security threats should be considered. Given that economic stabilization entailed pain for the people, the equal distribution of wealth was the reason why Korea, compared to Turkey, was able to solidify economic stabilization. It had an equal pattern of distribution of wealth through land reform and the Korean War in the 1950s; although people were extremely poor, through the industrialization of the 1960s and 1970s, Korea maintained an equal distribution of wealth while relieving absolute poverty and creating employment. Turkey, on the other hand, had a much unequal income distribution structure through industrialization (Öniş, 1998, p. 477). Thus, Korea was more egalitarian than Turkey in terms of income distribution. In the 1980s, military dictatorship curbed wages and agricultural prices for stabilization, but improved living standards, and an equal distribution of wealth also helped Koreans accept stabilization. After stabilization went into orbit, complaints about the redistribution of wealth exploded with democratization in the late 1987. On the contrary, Turkey's less unequal distribution of wealth led the government to lean toward short-term populist policies before elections, which would trigger economic instability rather than the continuation of stabilization.

On the external side, during the Cold War, the security threat posed by Korea's confrontation with communist forces was greater than Turkey's, the support

Korea received from the US was greater than Turkey's, and Korea was committed to economic growth and industrialization as an undisputed national policy (Öniş, 1998, pp. 485–487). During economic stabilization in the early 1980s, when tensions between the US and the Soviet Union peaked, Korean Airlines flight 007 entering Soviet airspace was shot down by the Soviet Air Force in September 1983 ("KALt'apsŭng 269myŏng," 1983). A month later, the Rangoon bombing and the resulting death of major technocrats further strengthened the public consensus that Korea should overcome the economic crisis through economic stabilization against the threat of communism. Even the business community, which had opposed austerity measures the most, also stressed the close public-private cooperation and claimed that the policy stance of economic stabilization should not be shaken ("Kyŏngjegyeŭi panŭng," 1983). Conversely, few external factors prevented Turkey's pre-election populist redistribution policy and forced it to maintain its economic stabilization as an irreversible national policy since the second half of the 1980s.

Fourthly, given that Korea's state capacity was higher than that of Turkey, was Korea's authoritarian regime adopting a presidential system advantageous to create high state capacity compared to Turkey's democracy under a parliamentary cabinet system? The answer is no. As the DSs, Korea and Taiwan were authoritarian, and even Japan, formally democratic, also had soft authoritarian characteristics (Johnson, 1987, pp. 145). However, what the northern part of the Korean Peninsula–the world's most authoritarian dictatorship and the most economically failed country–shows is that an authoritarian regime does not necessarily guarantee high state capacity. As this thesis claims, it is worth remembering that the state capacity to cope with the looming crisis was reduced under the most dictatorial Park's Yushin regime in the 1970s. Rather, a democratic regime can be easier to push forward market-oriented reforms than an authoritarian one. The information needed for the policy, freedom of the press, and feedback from the opposition party can rectify policy mistakes. Most of all, legitimacy through elections is more favorable to reform because democratic regimes can seek cooperation from their citizens (Maravall, 1994, p. 15).

When it comes to the form of government, a presidential system, where the president has a fixed term, and the administration is relatively independent of political parties and the parliament, is generally more likely to lead the policy process consistently compared to a parliamentary system. In the latter, the formulations of policies and appointments of key posts are influenced by the party system and the party-government relations. Selected by the parliament, the prime minister’s incumbency is predicated on maintaining its confidence (Weaver & Rockman, 1993, pp. 12–23). In particular, in the case of a coalition government under the parliamentary system, the prime minister’s leadership can be weakened amid political instability. Party leaders decide the cabinet ministers who ultimately form the coalition. For a coalition to be maintained, the government must provide various benefits to its supporters; thus, the coalition party wields enormous influence over the government’s policies (Y.-M. Kim, 2000, p. 29)—as in Turkey’s coalition governments in the 1970s. Nevertheless, the parliamentary system can exercise high state capacity. For example, tying with the bureaucracy and big business, Japan’s Liberal Democratic Party could seize political power for almost four decades since 1955 and achieve an economic miracle. Given that Korea’s Rhee government under the presidential system was weak in the 1950s, the form of government has no causal relationship with state capacity. Therefore, what is important in creating state capacity is the institutional mechanisms.

Finally, this thesis analyzed neoliberalism in Korea and Turkey in the 1980s from a comparative perspective by focusing on the state capacity of the DS. In this regard, this thesis selected political leaders, economic policymakers, and big businesses as key actors and investigated state capacity through the political-institutional mechanisms between them in the period of neoliberal globalization. As a result, this thesis has the limitation that it does not address the victims of neoliberal reforms such as workers, farmers, and small and medium-sized enterprises; further, it does not criticize the authoritarian and oppressive characteristics behind the high state capacity of the DS. In the future, more research will have to complement the limitations of this thesis.

APPENDIX A

1973 NEW YEAR PRESS CONFERENCE

I would like to make an important declaration about the economy to our people here today. Our country's industry has entered the era of heavy and chemical industries. . . . In the early 1980s, to achieve our $10 billion export target, heavy and chemical products would have to account for far more than 50 % of the total exports. To that end, the government is now pushing to step up efforts to foster heavy and chemical industries such as steel, shipbuilding, machinery, and petrochemicals to strengthen the export of products in these areas. . . . The government plans to build many large industrial complexes or bases on an international scale in the eastern, southern, and western coastal regions from now on.

1973NYŎN YŎNDU KIJAHOEGYŎN

나는 오늘 이 자리에서 우리 국민 여러분들에게 경제에 관한 하나의 중요한 선언을 하고자 합니다. 우리나라 공업은 이제 바야흐로 중화학 공업 시대에 들어갔읍니다. . . . 80 년대 초에 추이가 100 억 달러의 수출 목표를 달성하려면, 전체 수출 상품 중에서 중화학 제품이 50%를 훨씬 더 넘게 차지해야 되는 것입니다. 그러기 위해서, 정부는 지금부터 철강, 조선, 기계, 석유화학 등 중화학 공업 육성에 박차를 가해서 이 분야의 제품 수출을 목적으로 강화하려고 추진하고 있읍니다. . . . 이러한 대규모의 공장들을 수용하기 위해서, 정부는 지금부터 동해안, 남해안, 서해안 지방에 여러 가지 대단위 국제 규모의 공업 단지 또는 기지를 조성해 나갈 생각입니다.

APPENDIX B

THE THIRD FIVE-YEAR DEVELOPMENT PLAN (1973–1977)

8.2. During the third planning period, the GDP would increase by 88 million Turkish lira. The production would increase at an annual rate of 4–4.5% in the agriculture sectors and 11.5–12.5% in the industrial sector. Thus, an increase in GDP of about 12% would be achieved from the agricultural sector, 36% from the industrial sector, and 52% from the productive growth of the service sector.

8.3. Within the industry, the manufacturing sector would grow at an annual rate of 11.5–12%. To make a change in the direction intended in the plan for the structure of the manufacturing sector, the output of the consumer goods industry during this period would increase by 6.5–7.5%, that of the intermediate goods industry by 14–15%, and that of the investment goods industry by 16–17%. The output of industries such as chemicals, steel, non-ferrous metals, machinery, and electric appliances in 1977 would be double the level of 1972.

8.4. The production of the mining sector would increase at an average rate of 15% per year, while energy production would increase at 13%.

8.5. The share of the industrial sector in the GDP would rise from 23% in 1972 to 27% in 1977 to make up 40% of GDP in 1995, while the share of the agricultural sector would decline from 28% to 23%.

8.2. Üçüncü Plan döneminde GSYİH da 88 milyar TL. lık artış sağlanacaktır. Üretim, tarım sektöründe yılda ortalama yüzde 4,0–4,5 sanayi sektöründe yüzde 11,5–12,5 hızlarıyla artırılacaktır. Böylece GSMH daki artışın yaklaşık olarak yüzde 12 si tarım sektörünün, yüzde 36 sı sanayi sektörünün, yüzde 52 si de hizmet sektörünün hasılasındaki artışlardan sağlanmış olacaktır.

8.3. Sanayi içinde imalât sektörünün üretimi, yılda ortalama yüzde 11,5–12,0 bir hızla gelişecektir, imalât sektörünün yapısında perspektif planda amaçlanan yönde bir değişimin sağlanması için bu dönemde üretimin, tüketim malları sanayiinde yılda ortalama yüzde 6,5–7,5 hızla artmasına karşılık, ara malları sanayiinde yüzde 14,0–15,0, yatırım malları sanayiinde yüzde 16,0–17,0 hızları ile artması gerçekleştirilecektir. Kimya, demir-çelik, demir dışı metaller, makina imalât sanayii, elektrik gereçleri gibi sanayilerin 1977 yılındaki üretimleri 1972 seviyesinin iki katına ulaşacaktır.

8.4. Madencilik sektörünün üretimi yılda ortalama yüzde 15 hızla, enerji üretimi ise yüzde 13 hızla artınlacaktır.

8.5. Sanayi sektörünün GSYİH daki payının 1995 de yüzde 40 a çıkarılması için bu payın 1972 de yüzde 23 iken 1977 de yüzde 27 ye yükselmesi sağlanacak, tarım sektörünün payı ise yüzde 28 den yüzde 23 e düşecektir.

APPENDIX C

SEMI-STRUCTURED INTERVIEW QUESTIONS

1. When and how did you start working for your ministry?
2. According to the memoirs of economic policymakers in the 1980s, the EPB was reformative but the MF and the MCI were conservative groups opposing the free-market economy. What do you think of this?
3. What were the main cause of the conflicts between economic ministries?
4. In what way did the ministries resolve such conflicts?
5. Who reported policies to the president?
6. Was the president absolute in economic policy formulation and implementation?
7. How influential was the Presidential Secretariat?
8. How was the relationship between the Presidential Secretariat and other economic ministries?
9. What do you think is the significance of the shift in industrial policy that began in the mid-1980s?
10. Did you and your ministry often meet with your clients, such as large corporations or associations, when formulating policies?
11. Did you and your ministry frequently contact politicians?
12. How did the policymaking process change after democratization, compared to the pre-democratization period?

APPENDIX D

SEMI-STRUCTURED INTERVIEW QUESTIONS (KOREAN)

1. 언제, 어떻게 정부부처에서 근무를 시작했습니까?
2. 1980 년대 경제관료들의 회고록을 보면, 경제기획원은 개혁적이지만, 재무부와 상공부는 개혁에 반대하는 보수적인 집단으로 나옵니다. 이 점에 대해 어떻게 생각합니까?
3. 경제부처 간에 주된 갈등의 원인은 무엇이었습니까?
4. 어떤 식으로 경제부처 간의 분쟁을 해결했습니까?
5. 누가 대통령에게 정책을 보고했습니까?
6. 경제정책의 수립과 실행에서 대통령은 절대적이었습니까?
7. 대통령 비서실은 어느 정도로 영향력이 있었습니까?
8. 대통령 비서실과 다른 경제부처 간의 관계는 어떠했습니까?
9. 1980 년대 중반 산업정책 변화의 의의는 무엇이라고 생각합니까?
10. 정책을 입안할 때 당신과 당신의 부처는 대기업과 협회와 같은 고객들을 자주 만났습니까?
11. 당신과 당신의 부처는 정치인들과 자주 접촉했습니까?
12. 정책결정과정은 민주화를 전후로 어떻게 달라졌습니까?

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