The Asian economic crisis has created a watershed in contemporary history, where questions long buried by the demise of Western communism and a militant Left in the democratic countries amid an appallingly self-congratulatory liberal triumphalism, now come sharply to the fore. A systematic failure of capitalism has struck precisely those economies long held up as models of industrial efficiency—the Asian ‘tigers’—and no one is quite sure what to do about it, or where it will end. Looming behind the travails of the smaller afflicted countries is a more ominous phenomenon: the shaky financial condition and political immobilism of the world’s second largest economy, Japan, which has more than $600 billion in bad loans and—for a country long praised for its efficient ‘administrative guidance’—a breathtaking crisis of governance. A sober and influential American economist wrote recently that this turmoil ‘produced financial contagion on a scale unprecedented since the collapse of the Creditanstalt in 1931’, and he could not be sure that the ministrations of the International Monetary Fund (IMF) had halted its progress.¹ Nothing to date
has come close to the Asian crisis as constituting a defining moment that tells us what the post-Cold War world will really look like, and the problems it will present.

An Original Crisis

The international crises of the 1990s over Bosnia, Iraq, and North Korea might go under the rubric of ‘what’s my atavism?’ All were holdovers or recuperations of old problems. But the Asian crisis is no atavism, and it poses a host of different questions: what if markets don’t work? What if investors panic? What if the IMF doesn’t know what it is doing? Who pays the costs of economic disaster? And what is the relationship between capitalism and democracy? In recent months, two dominant views emerged among mainstream analysts: one, that Asian economies were at fault for their ‘crony capitalism’, with its many market irregularities and ‘moral hazards’; the other that the IMF was a secret, unaccountable operation that was itself interfering with normal market processes by bailing out investors who had made bad decisions. Henry Kissinger, for example, likened the IMF to ‘a doctor specializing in measles [who] tries to cure every illness with one remedy’, and The Wall Street Journal editors called it ‘one of the most secretive institutions this side of an average missile base’. Certainly these points are valid; the IMF is the global embodiment of the ‘new ecumenical gospel’ of neoliberalism, and its decision-making is shrouded in mystery. But how can the ‘miracle’ economies of Asia turn overnight into cesspools of ‘crony capitalism’? From the mid-1960s onwards, South Korea and Taiwan were the fastest-growing economies in the world, with China outstripping them in the past decade. In the 1990s the East Asian countries accounted for nearly two-thirds of all capital investment—excluding Japan with its long-term recession—and for half of the growth in world output, even though they constitute only twenty per cent of the world’s GDP.

Robert Wade and Frank Veneroso, writing in these pages, therefore found IMF demands for ‘radical institutional change’ in ‘the Asian High Debt Model’ to be perplexing; to require a deep restructuring just because of a temporary liquidity crisis struck them as inappropriate, given that the model had proved its manifold developmental advantages. But the model they describe, a national industrial strat-

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1 David Hale, ‘Developing Country Financial Crises During the 1990s’, Zurich Group, June 1998, p. 1. I am indebted to Mr. Hale for sending me this paper.
3 Pierre Bourdieu wrote that the fetishism of productive forces is found not in old Marxist texts but in the prophets of neoliberalism and the high priests of the Deutschmark and monetary stability—it is becoming a sort of universal belief, a new ecumenical gospel’, Bourdieu, ‘A Reasoned Utopia and Economic Fatalism’, NLR 227, January-February 1998, p. 126.
egy of state-mediated capital going to large firms trying to conquer foreign markets, with correspondingly high debt-equity ratios in the firms, is not an Asian but a Korean and Japanese model. None of the Southeast Asian economies can be characterized in this way, except, perhaps, with many qualifications, Malaysia. China, however, finds this model deeply appealing, and is far along the path of emulation. In fact, the unexpected liquidity crunch gave American leaders the chance to dismantle the remaining alternative model of capitalist political economy, before it organized not just Japan and South Korea, but China as well. It also gave them a chance to reassert leadership in East Asia.

Japan, which pioneered the ‘developmental state’, seemed, just a few years ago, to be the likely regional hegemon of the Pacific. It had a dominant economic position in Southeast Asia, and soon might organize China’s entry into the world economy. But that did not happen, because of the history and practice of American hegemony in East Asia: South Korea and Japan have been sheltered economies, indulged in their neo-mercantilism and posted as engines of economic growth, because of the great value they had in the global struggle with communism. Now that this struggle is over, however, the issue of their ‘fit’ with a new era of free markets and neoliberalism comes to the fore—to the surprise and shock of Koreans, and to the consternation of the paralytic Japanese elite. The deep meaning of the Asian crisis therefore lies in the American attempt to bring down the curtain on ‘late’ development of the Japanese-Korean type, and the likelihood that they will be successful—because the strong, nationalistic neo-mercantilism of Japan and South Korea was propagated in the soft soil of semi-sovereignty, and because, as we shall see, the Americans have, paradoxically, had willing accomplices in Northeast Asian peoples who have sought to reform or nullify this same model themselves.

The Anomalous States of Northeast Asia

In the late 1940s, Japan and South Korea were the subjects of a dual containment policy, while their economies were posted as engines of growth for the broader world economy. Americans revived Japan’s formidable industrial base, reconnected former colonial hinterland territories that were still accessible to it—South Korea and Taiwan above all—and enmeshed them in security structures that rendered them semi-sovereign states. Since that distant but determining point of origin, American generals have had operational control of the huge South Korean army and Japan, long the second largest economy in the world, into a security enterprise. Since, however, the United States also links to China at the border of semi-sovereignty, the Americans have had willing accomplices in Northeast Asian peoples who have sought to reform or nullify this same model themselves.

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5 Chinese banks dominate the financial system, accounting for 90 per cent of all financial transactions; their incentives for under-pricing loans are many, and huge state-owned firms, like South Korea’s conglomerates, get preferential lending at low rates. Excess credit availability has led to surplus capacity in Chinese industry. See Nicholas R. Lardy, ‘China and the Asian Contagion’, Foreign Affairs, vol. 77, no. 4, July-August 1998, pp. 78–88.
the world, has depended on the US for its defences. The American bases that still dot Japan and South Korea—containing nearly 100,000 troops—were agents both to contain the communist enemy and to constrain the capitalist ally. Meanwhile, both countries were showered with all manner of support in the early post-war period, as part of a cold-war project to remake both of them as paragons of non-communist development. Japan became the paradigmatic example of non-Western growth for the ‘modernization school’ that dominated American policy and scholarship in the 1950s and 1960s, just as South Korea later became the first Asian ‘tiger.’

The Korean War decisively interrupted US plans to re-stitch American and Japanese economic relations with other parts of East Asia; indeed the repositioning of Japan as a major industrial producer in response to a raging anti-imperial revolution on the Asian mainland, is the key to explaining most of East and Southeast Asian history for the next three decades—until the Indochina War finally ended in 1975. This regional cold-war structure resulted from unanticipated consequences that led American planners to forge a second-best world that divided Asia for a generation, when their first-best world was a single global economy under American leadership that would have yielded a unified Asian region. Since the publication of the ‘open door notes’ in 1900, amidst an imperial scramble for real estate, Americans have always sought unimpeded access to the East Asian region and have wanted native governments strong enough to maintain independence but not strong enough to throw off Western capital. The Cold War forced a number of temporary compromises to this vision that lasted far longer than anyone expected. But these expedients began to erode dramatically after the end of the Indochina War, as the People’s Republic of China was slowly brought into the world economy. Now, with the growing integration of the economies of the region, these impediments have nearly disappeared. In that sense, the East Asian region is now poised to return to the ‘first principles’ that Americans thought appropriate before the Chinese Revolution and the Korean War demolished their plans.

**The Truman Doctrine**

These ideas informed the operative documents for the post-war reconstruction of the region, ultimately embodied in a long paper known as National Security Council document 48/2, ‘Policy for Asia’, that President Harry Truman approval at the end of 1949. In earlier papers that informed the final draft, American officials enumerated several principles that they thought should regulate economic exchange in a unified East Asian region—including China: ‘the establishment of conditions favourable to the export of technology and capital and to a liberal trade policy throughout the world’, ‘reciprocal exchange and mutual advantage’, ‘production and trade which truly reflect comparative advantage’, and opposition to what they called ‘general industrialization’—something that could be
achieved ‘only at a high cost as a result of sacrificing production in fields of comparative advantage’. NSC 48 planners anticipated nationalist objections in the grand manner of the nineteenth-century Rothschilds:

The complexity of international trade makes it well to bear in mind that such ephemeral matters as national pride and ambition can inhibit or prevent the necessary degree of international cooperation, or the development of a favourable atmosphere and conditions to promote economic expansion.⁶

Yet ‘general industrialization’ is just what Japan and South Korea have pursued—nationalist strategies to build a comprehensive industrial base which contrast sharply with the Southeast Asian countries, which tend to be ‘niche’ economies like the smaller states in Europe.

As the favoured countries in the East Asian region, Japan, South Korea and Taiwan each had states appropriate to the long era of division that began in 1950 and lasted through the 1980s. Japan was shorn of its military and political clout, to become an American-sponsored ‘economic animal’, with coercive functions transferred to bloated authoritarian states in Taiwan and South Korea, each with mammoth armies and spending almost all the income they extracted from their people on coercion, obtaining the additional funds they needed from direct American aid grants.⁷ These state apparatuses thus completed the regional configuration, inasmuch as they saved Japan from an inflated military budget. At the same time, all three states were deeply penetrated by American power and interests, yielding profound lateral weakness. They were simultaneously strong and weak, and this combination of features was not accidental but rather was the product of the external shaping forces of the American-led world economy. But East Asians were also actors in this milieu. If the ‘developmental state’ was their answer, this was not some new form of political economy that emerged sui generis: they were instead devotees of European continental theory—a phenomenon that requires some elaboration, for it explains both what they did, and how the US can undo it.

The Legacy of List

In his recent book on Japan, James Fallows begins one chapter with a story about finding an English translation of Friedrich List’s *The Natural System of Political Economy* in a bookshop in Tokyo. He writes that it had taken him five years to find an English version of List’s work, and upon doing so, he ejaculates his version of Eureka: ‘Friedrich List!!’⁸ He goes on to argue that List, not Adam Smith, was the eco-

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onomic theorist behind Japan’s industrial growth. Now compare this with E.H. Norman, writing in 1941, who began a passage about Prussian influence on post-1868 Japan with the statement, ‘It is a commonplace that Ito [Hirobumi] modelled the Japanese constitution [and much else] very closely upon the Prussian.’

Or compare with Karl Marx, who, in 1857, analyzed the thought of a prominent American economist of the time, a follower of List named Henry Carey. For Carey, the natural and normal course of economic policy would consist in tariff protection and the hot-house development of industry, and the unnatural and abnormal policy was the British doctrine of free trade, which he saw as a form of highway robbery: ‘Carey sees the contradictions in the economic relations as soon as they appear as English relations’, Marx wrote.

And further,

Originally [for Carey], the English relations were distorted by the false theories of her economists, internally. Now, externally, as the commanding power of the world market, England distorts the harmony of economic relations in all the countries of the world... Having dissolved this fundamental harmony in its own interior, England, by its competition, proceeds to destroy it throughout the world market... The only defence lies in protective tariffs—the forcible, national barricade against the destructive power of large-scale English industry. Hence, the state, which was at first branded the sole disturber of these ‘harmonies économiques’, is now these harmonies’ last refuge... with Carey the harmony of the bourgeois relations of production ends with the most complete disharmony of these relations on the grandest terrain where they appear, the world market, and in their grandest development, as the relations of producing nations.

We can extrude the implicit theory of the state here as follows: first, under conditions of national competition—or what List called Nationalökonomie—the state becomes the ‘national barricade’. But, elsewhere, Carey had branded the state as the disturber of the domestic economy. Therefore he must think the state is good for some things—such as protection—but not good for others, such as intervention in the ‘free market’. Historically this is nothing more than Republican Party practice—Smoot-Hawley plus J. Edgar Hoover plus laissez-faire—but, analytically, it means the state is not simply a domestic expression, it is also formed from without by something else: national competition (‘the grandest development’) in the world market (‘the grandest terrain’). Nationalökonomie is therefore not just for Germans but for everyone coming to the world of industry ‘late’. The arriviste state should

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11 Ibid., p. 886.
regulate competition by opening and closing within the grand terrain of the world market. In other words, something close to Karl Polanyi’s theory of the state, which in the milieu of the world economy becomes a guarantor of Polanyi’s ‘principle of social protection’ against the backwash and the ravages of world market competition.\footnote{12 Karl Polanyi, \textit{The Great Transformation}, New York 1957.}

\textbf{Strong States and Weak States}

In other words, the state is not just an historic and domestic product, differing according to time and place. It is also a residuum of international competition; it has a lateral dimension that may be strong or weak—penetrated or autonomous, to put it simply; If this is so, then state formation will again differ according to world time and position within the world system. Strong states are those whose citizens are habituated to the existing forms at home, and those capable of imposing their will abroad; the latter, in its hegemonic form, will mean everything from consuming the strong state’s products to consuming its exported culture. Immanuel Wallerstein is one of the few who understand this point, even if his discussions of it have been subject to endless misreading. Here is his definition of the modern world’s array of ‘strong’ and ‘weak’ states:

States have been located in a hierarchy of effective power which can be measured neither by the size and coherence of their bureaucracies and armies nor by their ideological formulations about themselves but by their effective capacities over time to further the concentration of accumulated capital within their frontiers as against those rival states.

Nor were these states fully sovereign, for ‘the very existence of this hierarchy provided the major limitation’.\footnote{13 Immanuel Wallerstein, \textit{Historical Capitalism}, Verso, London 1983, pp. 56–57.}

For Marx, the state’s ‘autonomy’ consisted in its separation of itself from society and becoming a power over and above it, much as Polanyi saw in the rise of the world market the extrusion of economic relations from social relations and the subordination of society to economic imperatives—the unregulated market separating itself and becoming a power over and above society, and perhaps, the state. Thus, for Marx, the modern state meant the separation of the state from the body of society, or, ‘The abstraction of the \textit{state as such}… was not created until modern times. The abstraction of the \textit{political state} is a modern product’.\footnote{14 Lucio Colletti, Introduction, in \textit{Karl Marx: Early Writings}, trans. Rodney Livingstone and Gregor Benton, New York 1975, p. 33.}

For Hegel, however—who found a home among Japanese and Korean thinkers that would no doubt surprise him—modern society estab-
lished the distinction between public and private, and because individuals are atomized by the market, as Marx claimed, therefore the state itself must provide a new form of unity: in Hegel’s thought, an abstracted unity that substitutes for a lost organic community. It then follows that the state may become a conservator of past ‘protections’ threatened by market relations or international competition:

It is precisely because Hegel’s vision of the contradictory and self-destructive character of modern society was so keen that he tried so hard to resuscitate and adapt to modern conditions certain aspects of the ‘organic’ feudal order which still survived in the Prussia of his day. Hegel saw these more organic institutions as an elementary way of compensating for the newly unleashed individualism of bourgeois society. ‘The task of a modern state, in this sense, must be to restore the ethic and the organic wholeness of the antique polis . . . and to do this without sacrificing the principle of subjective freedom’.  

Organic Unity of State and Society

If John Locke presented the state—or ‘civil government’—as the separated ‘impartial judge’ of private conflicts, for Hegel this separation of state and civil society was in contradiction with his understanding of human society, and so he hypothesized a state that would restore the lost organic wholeness for which he yearned, yielding a fusion of what we call state and society. And here we come to the nub of the problem concerning the relationship between the contemporary hegemony of neoliberalism and the realities of East Asian practice: all the modern states of the region, including the communist ones, have responded, in some fashion, to Hegel’s passion for conserving a threatened organic heritage—leading to what Meiji thinkers called the ‘family state’, what interwar Japanese ideologues referred to by kokutai (often translated as ‘national body’), or what became in North Korea a state-society modelled on the ruling family and the doctrine of Juche—chuch’ e, a form of nationalist subjectivity pronounced shutai in Japanese and a central intellectual theme in modern Japanese and Korean history.  

The central experience of Northeast Asia in the post-war period, in short, has not been a realm of independence where autonomy and equality reigned, but an alternative form of political economy enmeshed in a hegemonic web. Japan, South Korea and Taiwan industrialized within this web, and thus had states ‘strong’ for the struggle to industrialize, but ‘weak’ because of the web of enmeshment: they are semi-sovereign states. The material foundations of this sheltered independence are remarkable: foreign direct investment—the agency of dependencia in Latin America—remained surprisingly low: in the mid-1990s, 0.4 per cent of GDP in Japan and 2.5 per cent

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15 Colletti, in Marx, Early Writings, pp. 30–31.
16 J. Victor Koschmann, Revolution and Subjectivity in Postwar Japan, Ithaca 1996.
in Korea, as compared to China’s 20 per cent, Taiwan’s 7.4 per cent, 
8.5 per cent in the US, and 30 per cent in the UK. North Korea and 
China defined themselves as outside the web, thereby endowing the 
web with overriding significance—and so they structured their states 
to resist entanglement. They have had states ‘strong’ for industrial-
ization, and ‘total’ for hegemonic resistance. But as the century ends, 
both are being drawn into the web. This suggests that the nearest 
thing to a new truth about the state since List, Hegel and Marx, is 
that state machineries are embedded in the world system, that their 
autonomy within it is limited, and that the specific institutional 
forms states may take around the world cannot be understood apart 
from the workings of the whole. That whole is the one Marx called 
‘the grandest terrain’—the world market.

The Clinton Doctrine

In the 1990s, the second-best world, the world of blocs, of iron and 
bamboo curtains, unexpectedly disappeared—and therefore, so has 
American indulgence for the neo-mercantilism of its East Asian allies, 
which was always a function of the cold-war struggle with their oppo-
sites. Since 1993, the ‘Clinton Doctrine’ has been one of aggressive 
foreign economic policy designed to promote exports, to open tar-
geted economies to American goods and investment—especially in 
service industries which now dominate the US economy, accounting 
for 85 per cent of GDP, and in which it has a barely-challenged global 
lead—while maintaining the cold war positions that give Washington 
a diffuse leverage over its allies such as Japan and Germany, and which 
pose a subtle but distinct threat to potential adversaries like China. 
All this goes on under the neoliberal legitimisation of Smithian free 
markets and Lockean democracy and civil society.

Just as one would predict of a mature hegemonic power, the US now 
prefers the virtues of a multilateral economism to the vices of direct 
coercion and intervention, and thus the IMF and the World Bank have 
vastly enhanced their utility in Washington’s eyes, and even the aban-
donied Bretton Woods mechanism has materialized in the form of the 
World Trade Organization (WTO). As China waxed and Japan waned 
on American horizons in the 1990s,17 perhaps the breadth of 
American hegemony can be appreciated in China’s beleaguered 
efforts to polish its application to the WTO, while Washington con-
tinues to demand more reform before approving Beijing’s entry. A 
central preoccupation of American policy is to shape and channel 
China’s position in the world market, so as to block the emergence of 
‘another Japan,’ and the deep meaning and intent of the American

17 An important nationwide poll of American attitudes on foreign affairs found in 1995 
that while the mass of Americans (62 per cent) continued to worry about economic com-
petition from Japan, far fewer among the American elite (21 per cent) still did so. Five 
years earlier the figures for both groups were 60 per cent for the public, 63 per cent for the 
‘leaders’. See John E. Reilly, ed., American Public Opinion and US Foreign Policy 1995, 
Chicago 1995, p. 25.
and IMF response to the Asian liquidity crisis is to close the historical chapter in which the sheltered ‘developmental states’ have prospered.

South Korea is an exemplary case for all these points, because the liquidity crunch hit just in the middle of a defining presidential election, in a country long touted as a ‘miracle’ of industrial development, a country just given the highest credit ratings by key Japanese agencies, and one which had happily slurped at the trough of abundant Japanese and Western bank lending. But South Korea continues to be locked into the structure of American hegemony, and so key American officials dominated the IMF, with the goal of transforming Korea’s ‘developmental state’ into an American-defined normality that would essentially end, at least in its present form, the Korean ascent into the realm of advanced industrial states.

How Robert Rubin Rewrote the Rules of Korean Political Economy

A mark of Washington’s unipolar pre-eminence and the potency of its foreign economic policy under Clinton is that even mainstream pundits found the International Monetary Fund to be the mere creature of Treasury Secretary Robert Rubin and Deputy Secretary Lawrence H. Summers. Rubin and Summers, along with Federal Reserve Chairman Alan Greenspan, have been the three horsemen of Clintonomics, and they rode herd on the Asian crisis. As the liquidity crunch hit Northeast Asia in the fall of 1997, American influence was critical in deflecting Japan’s attempt to create an ‘Asian fund’ to bailout threatened banks, and in demanding far-reaching restructuring in return for IMF bailouts.

To say that South Korea’s finances ‘lacked transparency’ at this time was an extreme understatement: the highest officials were lying through their teeth. In November, the Bank of Korea Governor pretended that short-term non-performing loans totalled only $20 billion, whereas private analysts were placing the figure as high as $80 billion; he said that foreign reserves were $31 billion, when, in fact, Korea had but $6 billion and all of it was committed in the near term—meaning that the country itself was bankrupt: Seoul was ‘burning through its reserves by as much as $2 billion a day to help banks.

18 Japanese credit agencies continued to give Korea their highest rating through mid-1997; according to the Bank of International Settlements bank lending to East Asia rose to a record peak of $14.1 billion in the third quarter of 1997 (Hale, ‘Developing Country Financial Crises’, pp. 5–7).

19 See for example the column by David Warsh of The Boston Globe, reprinted in The Chicago Tribune, 14 December 1997; also Sebastian Mallaby, ‘In Asia’s Mirror: From Commodore Perry to the IMF’, The National Interest, no. 52, Summer 1998, p. 14; also Richard W. Stevenson and Jeff Gerth, who wrote that ‘The United States is the fund’s largest shareholder, at 18 percent, and effectively wields a veto over major programs and policies’, and also said that the IMF ‘is pushing far more deeply than even before into the day-to-day operations on a foreign economy—the Korean one.’ The New York Times, 8 December 1997.
that needed cash'.

By this time, the won had plunged from 800 to 1000 to the dollar. But the Kim Young Sam government was desperate to avoid an IMF bailout before the 18 December presidential election, and sought Japanese help instead; in mid-November South Korean Finance Minister Lim Chang Ryul openly pleaded with Japan to intervene: 'If the Korean economy goes wrong, so does the Japanese economy'. The Bank of Korea head flew off to New York for a meeting with currency arbitrage master George Soros. Washington, however, wanted a quick bailout during the electoral campaign, thus to get all candidates committed to it—or alienated from it, as the case might be. The critical moment came when Rubin gave up his Thanksgiving vacation to huddle with Greenspan, and then dispatched two senior officials to Seoul, including Summers—later called 'a modern version of Gen. Douglas MacArthur, reshaping Asia in America’s interest'—who told reporters that 'financial support should only be provided in the context of an IMF program'. After an all-night negotiating session on 1 and 2 December between the Finance Minister and the IMF team, agreement was reached on a $57 billion bailout package made up of $21 billion in stand-by credits from the IMF, $10 billion from the World Bank, $4 billion from the Asian Development Bank, with the US, Japan and other countries queuing up an additional $22 billion.

The Korea, Inc. Model

In return for the $57 billion package, the IMF demanded drastic restructuring. The classified text of the IMF agreement was aimed directly at the Korea, Inc. model: it had a 'highly leveraged corporate sector that lacks effective market discipline', with such high debt-equity ratios that most chaebols (conglomerates) were technically bankrupt at any give time; easy credit had led to 'excessive investment in certain sectors such as steel and autos'. Korea had to 'restructure and recapitalize the financial sector and make it more transparent, market-oriented, and better supervised'. It would have to cut its 1998 growth rate projection by half—6 per cent to 3 per cent—lift ceilings on foreign investment in Korean firms from 26 per cent to 50 per cent, facilitate foreign mergers and acquisitions, open domestic markets—especially the capital and auto markets—and create flexibilities in the labour market that would allow enormous layoffs. The government would create revenue by raising taxes and interest rates, and cutting budgets. Large financial institutions should now be audited by internationally recognized firms, and the vastly diversified chaebols should stop inter-subsidiary loan guarantees

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and other kinds of internal deals. Rubin personally held up the agreement for ten hours while he pushed for new standards of accounting. For their part, Korean officials pleaded to include anti-labour provisions in the reform package, hoping the IMF could do for Kim Yong Sam what he was unable to do for himself.

From the perspective of December 1997 it is instructive to glance back at the rather different situation exactly one year before. President Kim Young Sam, riding a wave of popularity for cashing in the preceding two military dictators, had proudly announced that South Korea had come of age as an advanced economy by joining the Organization of Economic Cooperation and Development or OECD, a group of top industrial nations. To polish Korea's application, Kim had abolished the Economic Planning Board (EPB), which had been the Korean locus of 'administrative guidance'.

**Kim's Conflict with Labour**

Under severe pressure from big business throughout his term to lower labour costs and restore comparative export advantage, in December 1996 President Kim and his ruling party rammed a new labour law through the National Assembly at dawn, with no notice to the still-sleeping opposition members. The new law retained the Korean Federation of Trade Unions (KFTU), a large, state-controlled trade union, as the only officially-approved labour organization for five more years, leaving the independent, 500,000-strong Korean Confederation of Trade Unions (KCTU) out in the cold, tarred as 'illegal'—even though it is one of the strongest unions in the world. The same law gave Korean business the legal right to layoff workers, and the leeway to replace strikers with scabs.

Because Korea has no unemployment compensation or safety net, the new law severely undercut workers' interests. Korea never had 'life-time employment' like Japan, but, for decades, workers had traded reasonably good job security for the absence of independent representation and the right to work the longest hours in the industrial world at wages barely able to sustain one's family. But since the dictatorship ended in 1987, Korean labour organization has expanded dramatically, especially in the flagship heavy industries: steel, automobiles, shipbuilding, and chemicals. Severe repression of labour under three decades of American-supported dictatorships finally gave way to modest improvement in wages and working conditions over the decade 1987-97, but now Korean labour was supposed to pay the cost of business excesses, thus to restore global competitiveness. The response to the new labour law was not long in coming: in January 1997 hundreds of thousands of Korean workers occupied the streets of Seoul for weeks, in what approached a general strike, until the government finally relented and agreed to shelve the law. When the December crisis hit home the IMF adopted the task of doing what the Kim government could not: enforce millions of layoffs. This could be
done without too much distress, the IMF said, if the (virtually bankrupt) Korea enacted unemployment compensation laws.

The massive labour protests in early 1997 shocked the Korean elite and turned Kim Young Sam into a lame duck for the remainder of the year—Korean presidents can serve only one five-year term. He was further weakened when a gigantic steel firm, Hanbo, sank under $6 billion in bad loans—some of which had been arranged with the political intervention of President Kim’s son, who was soon arrested. Relaxed controls on the financial sector, also done with an eye toward joining the OECD, encouraged even more lending by Japanese and Western banks. Indeed, foreign bankers fell all over themselves to spread money around: ‘We were all standing in line trying to help these countries borrow money’, said Klaus Friedrich, the chief economist at Dresdner Bank AG. ‘We would all see each other at the same places’. Korea was especially favoured because a foreign loan to a Korean firm was ‘tantamount to making a loan to the government’, according to Vivien Levy-Garboua, of the Banque National de Paris—‘It was a Korean Inc. loan’.

**Fright and Flight**

The heaviest lenders were Japan, France and Germany, followed by American banks. Japan’s exposure, however, was triple that of Germany—$119 billion compared to $42 billion, with the US at $34 billion. When the Thai trouble began in July, they all began slashing back their lending—by $100 billion in the second half of 1997—and made ‘a headlong rush for the exits’, in the words of an American banker.\(^2\) Kim Young Sam’s lame-duck status and the disappearance of the EPB meant that Korea’s usually astute economic planners did not have the political backing to take the measures necessary to head off the ballooning debt and liquidity problems, which were then vastly accelerated by frightened foreign investors. Kim Young Sam was the first civilian President since 1960 and will have his indelible place in history for his courage in bringing former militarists Chun Doo Hwan and Roh Tae Woo to trial on sedition and corruption charges—Chun was sentenced to die and Roh to a long prison term; both were pardoned in early 1998, after spending a long period in jail. Otherwise, however, Kim was in every way a conservative and a child of the post-war South Korean system, and demonstrated as much in 1997-98.

After the bailout, influential analysts inveighed against a model of development that had been the apple of Washington’s eye during the decades of authoritarianism in Korea. Deputy IMF Director Stanley Fischer said true restructuring would not be possible ‘within the Korean model or the Japan Inc. model’. ‘Korean leaders are wedded to economic ideals born in a 1960s dictatorship’, an editorial in *The New York Times* said.

Wall Street Journal said, leading to ‘hands-on government regulation, ceaseless corporate expansion, distrust of foreign capital and competition’; the thirty largest chaebôls, accounting for a third of the country’s wealth, were ‘big monsters’ who ‘gobbled up available credit’ and relied on ‘outdated notions of vertical integration for strength’. Perhaps the chief economist at Deutsche Morgan Grenfell, Ed Yardeni, trumped all the pundits in heaping scorn on Seoul: ‘the truth of the matter is that Korea, Inc. is already bankrupt. All that’s left is to file the papers. This is a zombie economy.’

If it was far from a ‘zombie’, the crisis certainly cut the economy down to size. In November South Korea ostensibly had a GNP of almost $500 billion and a per capita GNP of about $11,000; it accounted for about six per cent of total world GDP—compared to 2.5 per cent in 1980—and ranked eleventh among industrial countries. By January per capita GNP had fallen to $6,600 and GNP to $312 billion, or seventeenth place—behind Mexico, India, and Russia.

Koreans accused the IMF of attacking ‘major pillars’ of the chaebôl system; reporters wrote that the chaebôls were now ‘gripped with an unprecedented sense of crisis’, with ‘dismemberment’ perhaps in the offing. A spokesman for the Federation of Korean Industries asked how Samsung and Hyundai could have developed the nation’s profitable semiconductor and car industries ‘without the conglomerate system’, and suggested delicately that US and Japanese competitors might have had some ‘behind-the-scenes influence’ on the IMF, ‘with an intention to weaken the competitiveness of Korean major industries’. An editorial in a leading daily charged that ‘a senior US Treasury official backhandedly manipulated IMF negotiators to push for market opening while Japan used financial aid as a weapon to prop open the [Korean] domestic market for their goods’.

But this was only half the picture. Sources in Washington acknowledged that several reforms had been specifically demanded by US Treasury officials, in keeping with former US Trade Representative Mickey Kanter’s view that the IMF could be a ‘battering ram’ for American interests.

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25 The Choson ilbo got hold of the full, classified text of the bailout package and put it on its Internet website on 4 December 1997; see also a Dong-A Ilbo editorial of 3 December, Chun Sung-woo writing in The Korea Herald on 4 December 1997, and the FKI spokesman quoted in The Korea Herald, 5 December 1997. Rubin’s personal role in holding up the agreement was reported by Stevenson and Gerth, The New York Times, 8 December 1997.

26 Kanter was quoted in Devesh Kapur, ‘The IMF: A Cure or a Curse?’, Foreign Policy, no. 111, Summer 1998, p. 115. Kapur also wrote that according to fund sources, ‘conditions such as the one asking Korea to speed up the opening of its automobile and financial sectors reflected pressures from major shareholders (Japan, and the United States)’. 

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Japan's Regional Role

Had Japan stepped in instead of the IMF, it would have signalled an unprecedented step toward a hegemonic role in the region, something that the Americans neatly blocked, supported by Chinese leaders equally adamant against a leadership role for Japan. But then Japan was hardly in a position to do much, with its own banking system so shaky. Japan's financial authorities had injected up to $30 billion in the last week of November alone to prevent 'an unmanageable run on the banking system'; experts estimated that up to half of the major Japanese banks might have to be closed or merged, and that an initial bailout of Japan's financial sector would take at least $80 billion, with non-performing loans estimated at more than $600 billion. In panics the good go down with the bad, of course, and as Japanese citizens began queuing up outside their savings banks, it momentarily appeared that the second largest economy in the world might be crashing—all-purpose pundit C. Fred Bergston had Japan 'teetering very close to the brink'.

Thus Rubin worked feverishly for days—albeit trying 'to avoid conveying the slightest hint of panic'—not to block Japan's role in Asia, but to keep the crisis from taking down Japan, Russia, and probably, the world economy: 'We have regarded Korea as a firewall that could not be breached', an anonymous official in Washington said, 'for fear of other 'teetering' dominoes like Russia—and even Japan'. Rubin's frantic manoeuvring perhaps made the executive theory of the state seem too subtle to capture the reality, except that he had now become executive for the world economy—or what The Wall Street Journal called a 'socialist international' after German Finance Minister Theo Waigel flew to Washington to huddle with Rubin, Greenspan, and IMF director Michael Camdessus.

Unfortunately, the Korean bailout lasted for only three weeks. The won began tumbling again and Rubin lost his holiday again when on Christmas Eve he and Greenspan gathered top American bankers at the Federal Reserve Bank of New York to arrange $10 billion more in emergency loans to Seoul, thus to back up a package that would enable it to rollover bad short-term loans now said to total over $100 billion—with non-performing loans of all types equalling 51 per cent of Korea's GNP. Now Rubin materialized also as a national security manager, declaring that South Korea was a place where there were still 'enormous security concerns for the United States', and therefore could not be allowed

28 The New York Times, 10 December 1997, article by David Sanger—whose reporting on the Asian crisis has been by far the best in the American press—and article by Andrew Pollock.
29 The Wall Street Journal editors wrote that the IMF 'seems to be finding ways to socialize the world economy', 17 December 1997.
Major international banks agreed to swap $24 billion in Korean short-term loans for new government-guaranteed debt, and the Wall Street firm Goldman Sachs arranged subsequent Korean bond offerings to soak up still more bad debt.

By the New Year, Rubin had neatly accomplished three goals: to stop a run on Japanese and Korean banks, to rewrite the rules of Korea’s political economy as prelude to the struggle to do the same in Japan, and to maintain American hegemony in the region. Alan Greenspan waxed ecstatic before a Senate panel: the result of the Asian crisis was ‘a worldwide move toward “the Western form of free market capitalism”’. Another analyst exclaimed that ‘Wall Street won’.

Except, of course, that the panic of 1997 came close to detonating a collapse of the world economy worthy of 1929, a spectre that still hangs over all of us.

How Koreans Rewrote the Rules of Dictatorship and Democracy

It is an irony of South Korea’s history that the worst economic crisis in the country’s history should come just as the Korean people were about to elect dissident Kim Dae Jung, who suffered under the dictators. But this was no accident, as Kim embodied the courageous and resilient resistance to decades of dictatorship that marked Korea as much as its high-growth economy. Korean democracy has come from the bottom up, fertilized by the sacrifices of millions of people. If they have not yet built a perfect democratic system, they have nevertheless constructed a remarkable civil society that gives the lie to common stereotypes about Asian culture and values. Paradoxically, this maturing civil society is a key enabling mechanism for Washington and the IMF to get their way in Korea. Kim’s election has brought to power people who have long criticized the state-bank-conglomerate nexus and who, like the new president, have long been its victims. The irony grows in that the global managers feared Kim’s election—he might be a ‘populist’—and Washington long backed the dictators who tormented him. Mean-

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31 This firm, where Rubin was a partner for three decades, and Salomon Smith Barney, run by the former Treasury official who arranged the 1995 Mexican bailout, were working with failing Korean banks from late November onward.
32 Alan Murray in *The Wall Street Journal*, 8 December 1997. Reporter Timothy O’Brien wrote that the two Wall Street firms came to Seoul in late November, led by Jeffrey Shaifer (Smith Salomon Barney) and Robert Hormats (Goldman, Sachs), ‘precisely to help the country design and implement a new financing plan for 1998’, when it wasn’t yet clear that international banks would be willing to renegotiate the bad loans; O’Brien said delicately that some have questioned whether ‘the two investment banks have conflicts of interest in simultaneously advising the South Korean government in its negotiations with banks and being the first in line to lead any bond offerings’, and that ‘While Rubin’s ties to Goldman, Sachs undoubtedly allow the firm to engage in occasional name-dropping, none of its competitors have suggested the firm’s representation of South Korea is inappropriate because of Rubin’s tenure there’, *The New York Times*, 30 January 1998. Meanwhile Treasury’s top international troubleshooter, David Lipton, is a former IMF official.
while, back at home, Americans increasingly question the quality of their own politics.

An economically booming America has a political spectrum from Right to Left that has lately been suffused with conflicted concerns about American civil society, as people grope for a politics of authenticity and meaningful participation. Most Americans prefer not to vote, and reserve for Washington politicians a contempt unprecedented in American history. Simultaneously, contemporary writers of great influence argue that civil society is an inherently Western concept, and that it is absent in East Asia—whether in authoritarian Singapore, democratic Japan, or the NICs of South Korea and Taiwan. Samuel Huntington has made this view notorious in his book, *The Clash of Civilization*, but it is a view by no means limited to conservatives. Korea’s experience illustrates a different point: the truth that ‘Orient and Occident are chalk lines drawn before us to fool our timidity.’

Even with the election of Kim Dae Jung, Korea is still not a democracy. The National Security Law remains on the books and is used to punish peaceful dissent—in spite of an unusual State Department entreaty (in August 1994) that Seoul do away with this anachronistic and draconian measure. The law still embraces every aspect of political, social and artistic life. In the summer of 1994 even a professor’s lecture notes were introduced in court as evidence of subversive activity, yet his actions never went beyond peaceful advocacy. With the continuing exclusion of labour from the governing coalition, and the continuing suppression of the non-violent Left under the National Security Law, the ROK still falls short of either the Japanese or the American models of pluralist democracy; but it has achieved a politics that is more democratic than the halting and temporary, jerry-built transitions to weak democracy in Latin America, the former Soviet Union and East Europe, and the Philippines.

The Creative Power of Protest

The contribution of protest to Korean democracy cannot be overstated; it is a classic case of ‘the civilizing force of a new vision of society . . . created in struggle’. A significant student movement emerged in Western Europe and the United States in the mid-1960s, and enjoyed a heyday of perhaps five years. Korean students were cen-

tral activists in the politics of liberation in the late 1940s, in the
overthrow of the Rhee regime, the repudiation of Korea-Japan nor-
malization in 1965, and the resistance to the Park and Chun dictator-
ships in the period 1971-88. Particularly in the 1980s, through the
mediation of minjung ideology and praxis—a kind of liberation theory
stimulated by Latin American examples—Korean students, workers
and young people brought into the public space uniquely original and
autonomous configurations of political and social protest—forms that
threatened many times to overturn the structure of American hege-
mony and military dictatorship. Habermas’s characterization of
student protest in terms of a blurring of borderlines ‘between demon-
stration and civil disobedience, between discussion, festival, and
expressive self-presentation’ matches the Korean case well.

Korea also has had one of the strongest labour movements in the world,
one that organized itself through much of this century and which has
suffered under truly terrible repression. From the inception of the move-
ment in the early 1920s under Japanese colonial rule, through the deci-
sive American role in shutting down widespread independent labour
unions during the US Occupation (1945-48), and under the often stun-
ningly harsh repression of the dictatorships that followed for the next
four decades, Korean labour kept organizing and kept growing—or suf-
ferring the consequences. Today the unions hold the key to whether Kim
Dae Jung’s—and the IMF’s—reform program will succeed or not.

The IMF’s Man in Seoul: Kim Dae Jung

Robert Rubin’s ministrations came in the middle of the most impor-
tant presidential campaign in South Korean history. For the first
time, it appeared that a former dissident, a person of unquestionable
democratic credentials, with a base in the abused and underdevel-
oped Southwest, might finally come to power. And so Washington
and Wall Street insiders openly suggested that Kim was the wrong
leader at the wrong time in the wrong place: a US diplomat told a
reporter,

We could be in a position in which Kim Dae Jung takes office in
the midst of a financial emergency that is going to require a lot
of pain and downsizing of South Korean businesses. Almost no
one thinks he will command the authority to pull it off.

In fact, no other conceivable political leader was better positioned
than Kim to truly change the Korean system—he had called for
reforms analogous to those of the IMF throughout his long career.

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37 Jürgen Habermas in Peter Dews, ed., Autonomy and Solidarity: Interviews with Jürgen
39 In English, see especially Kim Dae Jung, Mass Participatory Economy, Cambridge, MA
1985.
Kim Dae Jung hit the political scene like a tornado in the 1960s, rousing large crowds and accumulating 46 per cent of the vote in an election in 1971, in spite of all manner of rigging by the ruling party, which lubricated the electorate with hogsheads of cash—homegrown and foreign ($7 million in campaign funds came just from Gulf Oil and Caltex). And so it came to pass that there were no more contested elections, until the military dictatorship ended in 1987. In between, Kim Dae Jung was the loathed-beyond-measure bête-noire of the dictators. Kim has limped badly ever since a suspicious accident in 1971, shortly after the election, in which a large truck rammed his car, killing several passengers and badly injuring him. Two years later, KCIA agents kidnapped him from the Grand Palace Hotel in Tokyo and plonked him down in a boat to return him to Seoul, or, more likely, to kill him—given that they had chained him and weighted his body with cement. American intervention, in the form of a helicopter sent buzzing over the boat, may well have saved his life. After his 1980 coup, General Chun sought to execute Kim on trumped-up sedition charges, blaming him for the 1980 rebellion in the south-western city of Kwangju; Kim was lucky to escape into exile in the US. He returned in 1985, and was under house arrest for most of the next two years. Dozens of buses full of riot police were always parked near his home, and his neighbours’ homes were occupied by agents who surveyed his every move. He could not give interviews, attend rallies, or write for any publications, nor could his picture appear in any media. He spent a total of six years in prison, seven more under house arrest, and five years in exile.

Strength of the Labour Movement

Kim Dae Jung has never been a radical, and has not had a strong base in labour for two reasons: first, until this year it was illegal for labour to involve itself in politics; second, over the years, Kim has been much more a champion of small and medium business than of labour—and, of course, supporting labour was a ticket to political oblivion in Korea’s McCarthyite milieu. It is true that he is more sympathetic to labour demands than previous leaders, and labour clearly prefers him to the past run of dictators. But, given the harsh anti-labour environment of the past fifty years, this is scarcely surprising. Today Korea has two large unions, each claiming the membership of about half a million workers. The KFTU was for decades the only legal union—because it was controlled by the state in the interests of owners, through what James West calls ‘corporatism without labour’ whereby the state, the conglomerates and the banks worked hand-in-glove, but labour was systematically excluded. From 1970 to 1987 the state controlled the recognition of unions at foreign-invested companies, banning strikes and all unapproved union organisers—thus ‘to placate uneasy foreign investors’.40 The other large

union is the Korean Confederation of Trade Unions (KCTU), which grew rapidly after 1987 but was illegal until early 1998. Both have about half a million members, but the KFTU was built upon an enterprise union base controlled from the top down, which allowed but one union per enterprise and thus dispersed horizontal solidarity across sectors. The Trade Union Act in force for decades barred intervention in the workplace by ‘third parties’—anyone who is not an employed worker or manager—and banned political activities by unions, thus making support of a specific political party illegal. All unions had to be approved by the Ministry of Labour.  

In spite of all this, South Korea today is a remarkable country where even white collar bank employees strap on identical headbands saying ‘Down with IMF trusteeship!’ and march through the streets yelling slogans in unison. Students on the raucous campuses ten years ago, they are now united with blue-collar workers in the KCTU. But because of labour’s strength even in white-collar ranks, foreign companies are reluctant to buy firms without rights to reduce employees. An anonymous senior official of a foreign brokerage firm said in January, ‘There’s no point in taking over a [Korean] bank if you can’t layoff anyone’. President Kim allayed labour’s fears with a master stroke in January, however, one that augurs a far-reaching political transformation: under his direction, for the first time in Korean history, labour leaders met with leaders of business and government to work out fair and equitable policies to deal with the IMF crisis, a kind of ‘peak bargaining’ arrangement that represents the labour movement’s biggest gain ever.

After tough negotiations, Kim persuaded the labour movement to agree to large layoffs—which would triple the pre-crisis unemployment rate, albeit from two to six per cent, not a high rate by Western standards—in return for the right to exist legally and to participate in politics and field candidates for elections. When labour leaders took this deal back to the rank and file it was soundly rejected, and many called for a general strike. The ROK has virtually no social security or unemployment compensation system; a puny unemployment law passed in 1995 allows 50 per cent of wages for 30 to 210 days, depending on how long a worker has been employed—measures that are well below ILO standards. But months of labour peace have followed the January agreement, punctuated by a sudden day-long shut-down by 130,000 unionists on 28 February, and sporadic actions that continued as unemployment approached nearly seven per cent of the work force by mid-summer. In July both major unions approved large strikes—involving 50,000 to 70,000 metal and auto workers. But they only lasted a day or two and did not lead to a general strike, and they were designed to pressure the Kim

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43 The rate increased dramatically from November through July, to 6.5 per cent, with nearly 1.5 million unemployed—according to many Korean newspaper accounts.
administration to halt layoffs rather than to shut down the economy. In late July both big unions returned to the ‘tripartite’ talks with business and government.44

**Reforming the Chaebôls**

The key to the reform process is a fair and across-the-board sharing of the IMF pain, and not just more layoffs of workers, which will require serious reform of Korea's octopus-like conglomerates. President Kim has been a life-long critic of these firms, and they have reciprocated: Samsung, for example, one of the top three firms—whose founder was an inveterate pro-Japanese reactionary—hates Kim and has funded his rivals for decades. Their mammoth and extraordinarily diversified structure combined with an open spigot of state-mediated loans were essential to Korea’s success in grabbing market share around the world—rather than simply pursuing price advantages—because losses in one subsidiary could be made up by gains in another. In 1993—according to none other than Kim Dae Jung—the top five chaebôls accounted for 66 per cent of total sales and 53 per cent of Korean GNP, and the top 30 accounted for 80 per cent of GNP.45

In an interview shortly after he was elected, Kim blamed the financial crisis on military dictatorships who lied to the people and concentrated only on economic development, to the detriment of democracy, leading to a ‘collusive intimacy between business and government’. He said that the way out of the crisis was to reform the government-business nexus, induce foreign investment, and then to increase exports.46 His chaebol reform package went along with IMF demands to eliminate intersubsidiary loan guarantees, lower debt-to-equity rations, and improve transparency. Early threats to dismantle the conglomerates, however, have given way to plans to break the nexus between the state and the firms. Kim Dae Jung has indicated more than once that he has no plans to change the size or purpose of the chaebôls.47 Instead he has promoted a ‘big deal’ in which the conglomerates would swap subsidiaries to concentrate on core businesses: for example Samsung’s automobile factory would go to Hyundai, in return for Hyundai giving its semiconductor business to Samsung.48

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44 The Hanguk Ilbo, 28 July 1998.
47 Minister of Finance and Economy Lee Kyu-sung said Kim’s reforms were not aimed at diminishing the power and size of the chaebôls, but rather aimed at using various incentives and tax reductions to encourage restructuring, The Korea Herald, 10 April 1998; recently President Kim told reporters he had no intention of breaking up the chaebôls, but merely wanted them to ‘run their firms in the black.’, The Korea Herald, 2 June 1998.
Unfortunately this state-managed ‘big deal’ is reminiscent of Chun’s early 1980s demands that each chaeból concentrate on the industry it does best, something also done in the wake of an economic downturn.

Kim’s desire to preserve the conglomerates is not surprising given their importance to Korean development, and the recent merger mania among many Western transnationals, done in the name of enhancing global competitiveness. But he also cannot get rid of these firms because they are feudal industrial estates akin to that maintained for centuries by the DuPont Corporation in the small state of Delaware, namely, provisioners of their employees’ needs in every way. As Meredith Woo-Cumings has argued, the typical Hyundai worker drives a Hyundai car, lives in a Hyundai apartment mortgaged by Hyundai credit, gets health care from a Hyundai hospital, sends his children to school on Hyundai loans or scholarships, and eats his meals at Hyundai cafeterias. If his son graduates out of the blue-collar work force and into the ranks of well-educated technocratic professionals—which is every Korean parents’ goal—he may well work for Hyundai research and development. This extreme form of corporatism is perhaps best seen in the masses of construction teams that Hyundai has long sent to the Middle East; every worker would depart in Hyundai T-shirts and caps carrying Hyundai bags, would live and eat in Hyundai dormitories, and would use Hyundai tools and equipment to build Hyundai cities in the desert. In the same way that Kim Il Sung built a Confucian-influenced hereditary family-state in North Korea and called it communism, the Korean chaebôls have built large family-run hereditary corporate estates in Korea and called it capitalism. Korea’s reformers have no alternative but to work within this chaeból system.

A New Team in Power

The clearest break with the past is in Kim’s economic team, which includes several well-known critics of Korea, Inc. and the chaebôls, most of them from the disadvantaged Southwest, and several of whom lost their jobs for political activities during the Chun period. Chon Ch’ŏl-hwan, a progressive economist and human rights activist, heads the Bank of Korea; N. Chôlla Province Governor You Jong-keun, a free market advocate, is a special advisor to the President; Lee Jin-soon, Kim Tae-dong, and several others were key members of the Citizen’s Coalition for Economic Justice, which promoted labour and criticized chaeból concentration in the past.49 They, with IMF and World Bank support, have advocated new safety nets for laid-off workers and New Deal-style public works projects to employ the jobless. Kim’s team has also published lists of firms and banks which are threatened with future closure—including fully 24 of 26 commercial banks—if they cannot remedy their insolvency; only the ‘fittest’ firms would survive. For the first

time, the government is planning to sell foreigners shares in state-run monopolies; for example Philip Morris and British-American Tobacco hope to buy as much of Korea Tobacco and Ginseng as they can.50

Democratic reforms have proceeded rapidly under Kim Dae Jung. Kim Young Sam did nothing to change Korea’s ubiquitous Agency for National Security Planning (ANSP), merely putting his own allies in control of it. The agency prosecuted hundreds of cases under the National Security law in the mid-1990s, including labour organiser Park Chung Ryul, who was arrested in the middle of the night in November 1995 when ten men rushed into his home and dragged him off to an unheated cell, where, for the next twenty-two days, his tormentors beat him, poured cold water over him, and limited him to thirty minutes sleep a day, all to get him to confess to being a North Korean spy—which he was not. A government official told a reporter such measures were necessary because ‘We found the whole society had been influenced by North Korean ideology’; he estimated that upwards of 40,000 North Korean agents existed in the South.51

An investigation in early 1998 proved that the ANSP had run an operation just before the election to tar Kim Dae Jung as pro-communist, and incoming officials also gave reporters the list of KCIA agents who had kidnapped Kim in 1973. In February the Sisa Journal published for the first time the full administrative structure of the ANSP, showing that it had more than 70,000 employees—and any number of informal agents and spies—an annual budget of around 800 billion wôn (about $1 billion), and almost no senior officials from the Southwest—three from among the 70 highest-ranking officials, one among 35 section chiefs. It controlled eight academic institutes, including several that provide grants to foreign academics and that publish well-known English-language journals. Kim Young Sam’s son, Kim Hyôn-ch’ôl, ran his own private group inside the ANSP and gave critical information to his father; many therefore blamed Kim’s inattention to the developing Asian crisis on the arrest of his son in mid-1996—for arranging huge preferential loans and massive bribery—thus depriving the President of reliable information. The new government cut the ‘domestic’ arm of the ANSP by 50 per cent, reduced the rest of the agency’s staff by 10 per cent, fired 24 top officials and many lesser people, and reoriented the agency away from domestic affairs, toward North Korea. A top official said the ANSP ‘will be reborn to fit the era of international economic war,52 not a bad characterization of the contemporary world economy.

A Rapprochement with the North

Kim Dae Jung’s most far-reaching changes have involved North Korea, and here Kim has the support of top chaebôl leaders, all of

50 The Korea Herald, 8 June 1998.
52 The Korea Herald, 19 March 1998.
whom see the North’s well trained and well educated but low paid workers as a key to restoring Korean comparative advantage. At his inauguration he pledged to ‘actively pursue reconciliation and cooperation’ with North Korea, and declared his support for P’yŏngyang’s attempts to better relations with Washington and Tokyo—in complete contrast with his predecessors, who chafed mightily at any hint of such rapprochement. He underlined his pledges in early March by approving large shipments of food aid to the North, lifting limits on business deals between the North and southern firms in April, and calling for an end to the American economic embargo against the North in June. He has explicitly rejected ‘unification by absorption’—which was the de facto policy of his predecessors—and has in effect committed Seoul to a prolonged period of peaceful coexistence.

Both governments are now committed, on paper, to a staged confederal process of reunification. The North first tabled its confederal plan in 1960, and Kim’s scheme also calls for a prolonged period of confederation, the first stage of which would involve ‘close, cooperative’ relations while maintaining two different systems, states, military structures and foreign policies. The two sides would manage relations between each other through various inter-Korean organisations, pending the second stage when, after a fairly long period of preparation, unification would occur under a federal system of one people, one nation, one political system, and two autonomous regional governments; the federal government would run Korea’s diplomacy, defence and its major domestic policies. Kim cited a practical need to respect the pride of the North Koreans and the necessity to govern the North Korean region separately for a considerable time, under a regional autonomous government. The third stage would be final unification under a central government. All of this would be done with the consent of the people through a democratic process.

North Korea, of course, has faced far worse crises than the South in recent years. Since the death of Kim Il Sung in 1994, the North has been visited with two years of floods (1995 and 1996), a summer of drought (1997), and a resulting famine that may already have claimed the lives of two million people. This is a textbook example of the calamities that are supposed to mark the end of the Confucian dynastic cycle, and North Korean citizens must wonder how much more suffering will be meted out. Kim’s son, Kim Jong Il, waited out the three-year traditional mourning period for the first son of the king before assuming his father’s leadership of the ruling party; on the fiftieth anniversary of the founding of the Democratic People’s Republic of Korea (DPRK) in September 1998, Kim Jong II became de facto head of state, but let his father remain ‘eternal President’—apparently because the son did not wish to assume the mandate of heaven.
Starvation and Suffering

Andrew Natsios, the Vice-President of World Vision, told reporters in September 1997 that North Korea had lost 500,000 to one million of its citizens to famine, and, if full information were at hand, the total might be closer to two million—that is, nearly ten per cent of the population. A survey in August 1997 conducted among some 400 Koreans living in China and crossing the border into North Korea frequently, came up with an estimate that fifteen percent of the population in towns along northern border had died. In orphanages, from which have come many of the televised images of this famine, the figure was twenty-two per cent; in poor mining towns in the far north, about nine per cent.

It is not clear that such figures would apply to the whole country. Regional differentiation is great in North Korea, with ten per cent of the population living in the highly-centralized and much-privileged capital. Foreign travellers have not witnessed starvation conditions in P'yôngyang, and an international delegation that visited the upper East coast, to break ground for the light-water reactors envisioned in the October 1994 nuclear framework agreement, did not see much evidence of malnutrition. The DPRK is a class society, and those families with houses—as opposed to apartments—in villages and small cities have small plots of land at their disposal, every inch of which is under cultivation. A Los Angeles Times reporter visited several families with small gardens, and found that such families did not need government rations and had enough to eat.

If natural conditions share much of the blame for North Korea's recent travails, even in the best weather conditions, the North's agricultural problems are irremediable short of major reform. The collapse of the Soviet bloc left the DPRK's export markets in the lurch, exports which had been exchanged at favourable rates for petroleum, coking coal, and other essential imports. A rapid decline in petroleum imports in the 1990s, in turn, hurt the national transportation network and the huge chemical industry, which provided so much fertilizer to the farms. For several years now, industry may have been running at less than fifty per cent of capacity. North Korea must find ways to export to the world market to earn the foreign exchange needed to import food, oil and other essentials.

In the North Korean administrative system, bureaucratic lineages and hierarchies often exist as independent kingdoms, and have trouble communicating with each other. Hardliners in the military have

54 Korean Buddhist Savior Movement, figures provided to me in September 1997.
56 Teresa Watanabe, 'In North Korea, Resilience in the Face of Famine', Los Angeles Times, 8 June 1997.
clearly been at odds with those in the Foreign Ministry who want better relations with Washington and Tokyo—something that foreign diplomats have witnessed on occasion—but the problems go much beyond that. Relative bureaucratic autonomy, the practice of provincial self-reliance, a vast party apparatus organizing upwards of one-third of the adult population, the privileged position of the military—gaining a minimum twenty-five per cent of the annual budget—the death of the only leader the country ever had, intense generational conflict, and the piling on of externally-generated crises, have all resulted in a kind of immobilism in the 1990s. Decisions are pushed upward through the hierarchy, and at the top no one seems capable of making the hard choices necessary to push the country on a truly new course. North Korea is neither muddling through toward some sort of post-communism, the way other socialist states did after 1989, nor is it reforming like China and Vietnam. The leadership seems deeply frightened by the consequences of opening up the economy, preferring instead to open tiny coastal enclaves—like the Najin-Sonbong export zone in the Northeast. Still, for all the troubles that have come in the 1990s, there are few signs that any of them have threatened the stability of the top leadership. It is more at the local level that the system is breaking down.

A visitor who recently travelled by car from P’yŏngyang to the northeastern city of Hamhŭng, for example, told the author that he had seen a large barter market operating every day along the riverbank in Hamhŭng. Hard currency, especially dollars, was in wide use and highly valued. He thought that the historically centralized, administratively planned delivery of goods and services by the state had almost completely broken down at the local levels, with many people telling him that government food rations had not been delivered for months. Still, foreign relief experts say that food brought into the country is not diverted to the privileged military. It is more a matter of locally-produced food stocks going to the elite in P’yŏngyang and to the vast military, which enrols one-twentieth of the entire population. Otherwise, foreign observers speak of an egalitarian sharing of existing food stocks, combined with a triage policy, whereby the young, the elderly and the infirm are the first to suffer. The government is helping where it can, denying where it must, and keeping the essential pillar of its power—the military—sufficiently fed. In 1997 Kim Jong II approved a measure that would allow farmers to keep up to thirty per cent of what they harvest, a truly major change if indeed it is implemented.

Tensions with the US

Washington maintains its economic embargo against the regime, now entering its fiftieth year, but the Clinton administration is still the first since the Korean War to use diplomacy to resolve serious issues with the North—mainly because of lessons learned in the near-war of June 1994. The United States nearly plunged into a conflict that the
local American commander, General Gary Luck, estimated would kill a million people, including upwards of 100,000 American soldiers, not to mention costing more than $100 billion—about double the total cost for the Persian Gulf War. Don Oberdorfer’s new book contains a detailed account of the frightening crisis over North Korea’s nuclear program, which lasted from mid-May to late June 1994. In the event, former President Carter broke the war momentum by flying off to meet directly with Kim Il Sung, a breakthrough that made possible a comprehensive freeze on the North’s Yongbyon nuclear facility.

The near collapse of the South Korean economy was the best news North Korea has had in a decade, and only deepened the regime’s go-it-alone mentality. But the North’s situation is far worse, something that has occasioned an unaccustomed candour on the part of the regime. Its official news agency said in July that ‘the people are tapping all possibilities and reserves and eking out their living in reliance upon substitute food’, but claimed that ‘the Korean people are moving ahead merrily in the teeth of the present difficulties’. It acknowledged the large amounts of relief grain coming in from China—which had rendered ‘free assistance’ to the DPRK ‘on several occasions for years’.

Western sources, including the US government, have given more than $500 million in aid to the North since 1995, and in April World Bank officials arranged aid from several European countries that would enable training of North Korean experts, saying that they wanted ‘to learn about capitalistic economic operations’.

Meanwhile, two submarines and several dead infiltrators have washed up on the South Korean coast, suggesting either that hardliners are trying to disrupt North-South relations, or perhaps they want to deposit assassins in the South to settle accounts with one of the only high-ranking defectors ever to leave the North, regime ideologue Hwang Jang-yop—who went over in February 1996. P’yongyang blamed the latest infiltrator incident on ‘South Korean ultra-rightists who are allergic to the atmosphere of reconciliation and cooperation which is being created between the north and south’, wording that suggested it is still seeking good relations from the Kim Dae Jung government. There are also hints that its attitude toward Washington is changing. Long determined to get the US out of Korea, it now appears that at least some North Korean leaders want American troops—now 37,000 strong—to stay involved, to deal with changed international power relations in the 1990s—especially a strong Japan and a strong China—and to help P’yongyang through its current unstable and unpredictable transition.

Secretary of Defence William Cohen seemed almost to echo such

60 Selig Harrison interviewed a North Korean general who told him that whereas the North may call publicly for the withdrawal of American troops, in reality the troops should stay—to help deal with a strong Japan, among other things. See Harrison, ‘Promoting a Soft Landing in Korea’, Foreign Policy, no. 106, Spring 1997.
views in July 1998, declaring that American troops would stay in Korea even after it was unified.

**Results and Prospects**

Kim Dae Jung’s presidency has achieved major changes in the economy, the political system, and in relations with the North. He is more popular today than when he was elected, with his party winning about sixty per cent of the vote in local elections in June. South Korea’s foreign reserves should reach $50 billion by the end of the year, with industrial leaders urging that they be built up to $100 billion, that is, about the level of reserves that enabled Taiwan, Hong Kong and China to avoid runs on their currency. It therefore may turn out that a curious confluence of liquidity crisis, IMF reform, Washington’s desire to rein in Northeast Asian late development, and Korean democratization will put the ROK on a much better footing than other countries now trying to ride out the Asian Crisis.

There are strong counter-tendencies, however. At the time of writing, the American agency Standard & Poor’s still keeps a negative credit rating on Korea, and foreign analysts say it has not yet attracted significant foreign investment; progress on ‘transparency’ is slow, and incentives to foreign investors, tax favours and bureaucratic services are not as good as in Southeast Asia. State bureaucrats are perceived to be dragging their feet on real reform, and labour militancy also discourages foreign businessmen. More important, perhaps, is David Hale’s observation that ‘the magnitude of the debt overhang in East Asia is massive compared to the pool of speculative capital available for corporate restructuring from foreign investors’, and worse than the Latin American debt problem in the 1980s. Furthermore, the competitiveness of the smaller countries is being squeezed from the top by Japan, with its superior production technology, and from below by China, with its labour cost advantages. China’s share of the region’s exports has gone from six per cent to twenty-six per cent in the past decade, and today it is difficult to think of export products that Korea or Thailand can make that China cannot. Meanwhile, Japan is still the largest creditor nation, with $285 billion in foreign exchange reserves making it invulnerable to the kind of liquidity crisis that affected Seoul.

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62 Hale, ‘Developing Country Financial Crises’, p. 13. External debt to GNP ratios exceed Latin America’s in the 1980s: Indonesia, 114 per cent; Thailand, 97 per cent; the Philippines, 91 per cent; South Korea, 62 per cent.
63 In 1997, China replaced Korea in electronics sales; with nearly $50 billion in annual sales it ranked fourth after the US, Japan, and Germany; Korea is now fifth.
Conclusion

During the Cold War, as a key ally and front-line state, South Korea would have obtained its bailout with an immediate and overriding emphasis on issues of security—as it did in 1983, when Reagan and Prime Minister Nakasone arranged a $4 billion package for Seoul, amounting to ten per cent of its entire outstanding debt at a time when Latin America got no such help. But the Northeast Asian pattern of late development only worked when Japan and Korea were sheltered economies. Today, apparently autonomous ‘Asian tigers’, prospering within an indulgent hegemonic net for thirty years, find themselves rendered dependent and bewildered by a dimly-understood mechanism that now places their entire society and economy under global jurisdiction. Strong conservative forces in South Korea and Japan are fighting to preserve what they perceive to be their post-war social compact, and their civilization, against the IMF gospel. Others, like former Prime Minister Lee Hong Koo—now Korea’s Ambassador to Washington—argue that ‘the model is now clear. It’s not Japan, it’s the West. The current crisis has convinced almost all people that the old style doesn’t work’.65

The cold-war order in East Asia took shape through a positive policy of industrial growth, designed to restart the world economy in the 1940s, and in reaction to the revolutions on the Asian mainland that transformed and divided the region. The United States established distinct outer limits on its allies, the transgression of which was rare or even inconceivable, provoking immediate crisis—the orientation of Seoul or Tokyo toward the Soviet bloc, for example. The typical experience of this hegemony, however, has been a mundane and mostly unremarked daily life of subtle constraint, in which the US kept allied states on defence, resource, and, for many years, technological and financial dependencies. This is a potent form of hegemony and it has a message: in the 1940s it crushed one form of statist empire and, in the 1980s, another. Today it is eroding, if not erasing, the last formidable alternative system, the Japan-Korea model of state-directed neo-mercantilism—one undermined and made vulnerable by its inclusion in the post-war regional order. What is the message? The open door, pluralist democracy, and self-determination.

If the last point seems odd—was not Korea, Inc. an example of self-determination?—this is misleading: the willing accomplice of these successive victories has been a self-energized populace, demanding reform and opening in the name of liberal values. One only has to look at the collective behaviour of the vanquished: post-war Japan as a constitutional democracy and exemplar of pacifism; West Germany as the most self-conscious adherent of liberal values in Europe; the rush toward markets and representative government in

Russia and Eastern Europe in the 1990s; and the burgeoning recognition in Japan and Korea that ‘economies are all going the American way’, in the words of a former top trade official in Japan.\textsuperscript{66} Now even North Korea has invited the World Bank to tutor its experts in capitalist economics. Here is a system, in other words, with clearly established boundaries of its own, but incessant frontier violations of the Other.

**Brave New World Order**

Washington’s enduring regional configuration is suddenly shaky, however. The Asian crisis rippled through the region as the world market has begun to approximate the globe itself, with the recent addition of hundreds of millions of people in China and former Soviet bloc territories. Capital is entangling ‘all peoples in the net of the world market’, in Marx’s words, accounting both for the current economic boom in the core and the widespread sense that the dynamics of the whole are unstable. Americans now envision ‘Communist’ China being an anchor of stability in East Asia, something that led Rubin and Clinton dramatically to play up to Beijing during Clinton’s visit in June and to praise it for keeping its currency stable. Because the renmimbi is non-convertible, hedge fund speculators could not traffic in it, and because China—like Taiwan and Hong Kong—has maintained large foreign currency reserves, it has continued to grow: eight per cent in 1997, a projected seven per cent in 1998. Meanwhile, the capitalization of the American equity market is now approaching 140 per cent of GDP—compared to 82 per cent in 1929—and the mutual fund industry has assets higher than all the banks ($5 trillion). At the moment, the Asian crisis is keeping American monetary policy expansionary, but a stock market crash is easily imaginable in the next couple of years.\textsuperscript{67}

The pointman for the new ecumenical gospel, the IMF, attempts to impose hegemonic rules on everyone, ‘creating a level playing field’ in conditions of structural inequality and hierarchy that tilt the game toward the US and the advanced industrial countries; meanwhile ‘free market’ advocates castigate the IMF’s secrecy, and even the global managers themselves wonder if a world in which trillions of dollars careen around uncontrolled might be the source of financial chaos. This calls forth a demand for global regulation, for international macro-economic policies to stabilize the whole. Here is the essence of the conundrum that not just ordinary people, but the global bosses themselves cannot predict: can this brave new world in which capital spins out its telos in an historically unprecedented vacuum of alternatives be controlled, or not?

\textsuperscript{66} Quoted in Kristof, ibid.

\textsuperscript{67} Hale, ‘Developing Country Financial Crises’, p. 13.
Economic crisis of 1997 in south korea. At the end off 1997, South Korea companies were unable to pay off their loans, the stock market crashed and the Korean currency lost half of its value. The South Korean government had go begging to the International Monetary Fund for a $58 billion loan—the biggest IMF rescue package ever—but even that wasn't enough. At end of December 1997, the stock market had declined by 49 percent and the currency had depreciated by 65.9 percent. A black market for dollars opened in Myongdong in Seoul. Later corruption scandals showed a bribe-free system in South Korea was wishful thinking. And although the chaebol families own only an average of 5 percent of their companies they still managed to run them like fiefdoms.