

Carl J. Saxer
Asia Research Centre
Copenhagen Business School
Porcelaenshaven 24
DK-2000 Frederiksberg
Denmark

Email: cjs.int@cbs.dk

Fax: +45-38152500

Title:
Globalization as Policy: The South Korean Experience.

Draft
Please do not quote

I. Introduction.

One would be hard pressed to find a more controversial and debated topic than globalization. There is no coherent or dominant theory of it, and the debate has largely been dominated by two extreme views: proponents, also known as members of the ‘hyperglobalization school’ see it as a way to enhance the quality of life not only in the advanced industrialized nations, but also as giving the poorest countries a much needed opportunity to improve the quality of life in those countries. Opponents, known as members of the ‘globaloney school’ see the consequences of globalization in largely negative terms as a threat to social stability, state sovereignty, national and cultural identity, and it has received significant resistance from various sectors of societies.¹ Yet again other scholars, for instance neo-realists, are skeptical about the extent of globalization.² However, they all agree that globalization affects the structure of the nation’s economy, culture, politics and diplomacy, and that this has led to the separation between local and global and between domestic and foreign affairs becoming increasingly blurred.³ As a consequence even foreign policies and strategies must be rethought. Above all, globalization is more than a uni-dimensional phenomenon. It entails much more than the ‘mere’ opening of domestic market and the liberalization of national economies. While the focus tends to be mainly on globalization as an economic process, and the focus in this article as well, it is in reality a complicated political and historical process. This means that any comprehensive analysis of globalization must in equal measure take into consideration economic, social and political aspects. Leaning on Held and McGrew, this article defines globalization as a multi-dimensional process of intensifying global interconnectedness which impacts on all areas of human relations and transactions, be they economical, social, cultural, environmental or political.⁴ It must be evaluated in

¹ See for instance Dani Rodrik, “Sense and Nonsense in the Globalization Debate,” *Foreign Policy* 107 (Summer 1997), p.19 and M. Geyer and C. Bright, “World History in a Global Age,” *American Historical Review* 100 (1995).

² Peter Beinart, “An Illusion of Our Time: The False Promise of Globalization,” *New Republic*, 20 (October 1997), pp. 20-24.

³ Chung-in Moon, “Globalization: Challenges and Strategies,” *Korea Focus* 3, no. 3 (May-June 1995), pp. 64-67. See also David Held and Anthony McGrew, *Globalization/Anti-Globalization* (Cambridge: Polity Press, 2002), p. 128.

⁴ See for instance also the definition developed in James N. Rosenau, “The Dynamics of Globalization: Toward an Operational Formulation” *Security Dialogue* 27, no. 3 (1996), pp. 247-262 and in David Held, Anthony McGrew,

a situation-and-actor-specific way; that is, globalization outcomes will vary depending on the actors' respective resources, skills, and the strategic choices and policies of governments. As argued by Held and McGrew, "contemporary globalization is reconstituting or 're-engineering' the power, functions and authority of national governments."⁵ While, as mentioned earlier, this article argues that globalization is a multi-dimensional process, the analysis will here be limited to focusing on two dimensions of globalization, namely market and production globalization. Market globalization can be measured in terms of the volume of trade and capital flows, which indicate the changing breadth, and depth of integration in the world economy. Globalization in this sense is really about economic interdependency, and the question becomes what are the consequences of that interdependency. Market globalization – its extent, sources, and implications – can be seen in both the areas of trade and capital flow. Increased trade interdependency implies for the state that the costs of closure rises, and this in turn constraints the range of options available to the state for dealing with domestic economic dislocation.

Another type of market globalization concerns capital mobility, and I will here only deal with FDI which entails the transfer of managerial rights, and not portfolio investments as such. The increasingly footloose character of capital has come to epitomize globalization. This is fueled by capital market de-regulation whereby governments have sought to make their economies more efficient and attractive to external capital investments. The impact of trade and financial globalization on the state will lead to a decrease in the available options of governance.

The second type of globalization that this article investigates is productive globalization. International corporations are increasingly organizing their operations in far-flung complex production arrangement. The most important manifestation of this type of globalization is foreign direct investment (FDI). The rise and spread of FDI has been one of the most important sources of change in the world economy. In particular within the last two decades, we have seen a huge increase in FDI. In fact, FDI has grown at larger annual rate than trade, which in turn has grown faster than gross domestic product.⁶ FDI has had the consequence of making it more difficult to decide what is "foreign" and what is 'domestic,' and as result national economic identities has become less distinct, undercutting governments' abilities to make clear choices in favor of economic nationalism.

This article first explores the background of the globalization project in South Korea, and the methods and policies pursued. It then turns to an analysis of the implications of the globalization project for trade and foreign investment. Finally, the article looks at the ramifications of the globalization drive for the South Korean state and society.

II: Globalization in South Korea: Background and Policies.

In a recent globalization index analysis published in the journal *Foreign Policy*, the Republic of Korea was in the 32nd place, 4 down from its place in 2003.⁷ This must be contrasted to the fact that the Republic of Korea is rather unique in that it is one of very few countries in world which a decade ago actually set out, through a government directed policy, to globalize its society. On 17 November 1994, after his participation in the APEC Summit, then President Kim Young-sam, announced a globalization policy with the explicit purpose of making the country an advantaged nation.⁸ This pronouncement followed upon a declaration by then Minister of Foreign Affairs, Han Sung-joo, where he had outlined the basic five fundamental elements of the new administrations 'new diplomacy.' These elements were globalization, diversification, multidimensionalism, regional cooperation, and futuristic orientation.⁹ The apparent purpose of the new policy was to diversify the number and scope

David Goldblatt & Jonathan Perraton, *Global Transformations: Politics, Economics and Culture* (Stanford: Stanford University Press, 1999), pp. 1-28.

⁵ David Held and Anthony McGrew, *Globalization/Anti-Globalization* (Polity Press, 2002), p. 126.

⁶ Douglas H. Brooks, Emma Xiaoqin Fan, and Lea R. Sumulong, "Foreign Direct Investment: Recent Trends and the Policy Context" in Douglas H. Brooks and Hal Hill, eds., *Managing FDI in a Globalizing Economy: Asian Experiences* (New York: Palgrave, 2004), p. 3.

⁷ *Foreign Policy* (March/April 2004), p. 57.

⁸ Kim Young-sam had already earlier espoused some of the ideas that would later form part of his *segye-hwa* policy. See for instance n.a., *Kim Young-Sam and the New Korea* (Chicago, Bonus Books, 1992). See also Kim Young-sam's recollection of the event in Kim Young-sam, *Kim Young-Sam taet'ongnyŏng hoegorok, sang* [President Kim Young-sam's Memoirs, vol. 1] (Seoul, Chosŏn Ilbosa, 2001), pp. 361-365.

⁹ See Korea Overseas Information Service, *Kim Young Sam: Creating a New Korea*, 1993. See also Ministry of Foreign Affairs, *Oegyo paekso* [Diplomatic Whitepaper] (Seoul: 1994), pp. 15-18.

of diplomatic and trade relations via globalization in order to break away from the dominance of the USA-ROK bilateral relationship.¹⁰

In early December 1994 the government then announced a cabinet reshuffle and a significant administrative reorganization. The once very powerful Economic Planning Board (EPB) was merged into a new large Ministry of Finance and Economy (MOFE), while the Ministry of Trade, Industry, and Energy was replaced by a Ministry of Trade and Industry (MITI). In addition a new policy planning position with focus on globalization issues was established at the Blue House. This was followed by the establishment of a globalization committee, the *seggyehwa ch'ujin wiwŏnhoe*, in the same month. This committee was headed by the prime minister, Lee Hong-koo, and consisted of a number sub-committees dealing with issues such as policy planning, administrative reform, educational reform, and science and technology. Memberships of these sub-committees were drawn from government ministries, research institutes, universities, business, and from civil society organizations. In a speech given to the committee the president on 25 January 1995, in combination with one given on 23 March 1995, he outlined his vision of *seggyehwa*. He argued that globalization was a "global trend" and that South Korea was in the middle of an era of a "borderless global economy."¹¹ This meant that the country would have to prepare itself for "boundless global competition."¹² The government claimed that *seggyehwa* meant "rationalizing all aspects of life" and a "sweeping transformation of society."¹³

The *seggyehwa* policy seems to be unique as it set out to globalize the country through a state-enhancing, top-down strategic plan with the purpose of meeting the challenge of globalization as defined by the government at that time.¹⁴ The policy had the purpose of (1) creating a first rate nation; (2) rationalize all aspects of life; (3) maintain national unity by rising above class, regional, and generational differences; (4) strengthening Korea's national identity as the basis for successful globalization; and (5) enhance a sense of community with all humanity.¹⁵ In order to achieve these goals it would be necessary to enhance economic efficiency by promoting autonomy, competition, and liberalization.

The president continued to emphasize the importance of globalization as he for instance in his new year's address in January 1995 stated that "Globalization is the shortcut that will lead us to building a first-class country in the 21st century. This is why I revealed my plan for globalization and the government has concentrated all of its energy in forging ahead with it." However, there clearly were definitional problems as the government in March 1995 announced that it would use the Korean term, *seggyehwa*, even in English language publications to underscore that what was meant was globalization with Korean characteristics, and not the full-scale economic liberalization and opening of the domestic market that many foreign businessmen and commentators saw globalization as entailing. The government emphasized that it saw *seggyehwa* as a much more comprehensive policy embracing political, economic, cultural and social issues.¹⁶ The president continued to push for his *seggyehwa* policy in his new year's address on 9 January 1996. While admitting that not everything has gone according to plan, he nevertheless argued that the government had "accomplished a lot amid difficulties in many areas."¹⁷

He stated the government would continue its *seggyehwa* policy during 1996 with focus on the following areas:

- (1). A reform of the financial sector.
- (2). Corporate reform, focusing on ending the straggle hold the *chaebol* had on the South Korean economy, while realizing that growth was dependent on the *chaebol*.
- (3). A labor reform with the purpose of making the labor market more flexible.
- (4). Public sector reform. Making the public sector more streamlined and efficient.
- (5). Continue the shift from the dependence on loans to encouraging FDI.

¹⁰ Ibid.

¹¹ See See "Explanatory Notes on President Kim Young Sam's Blueprint for the *Seggyehwa* Policy," in *The Seggyehwa Policy of Korea under President Kim Young Sam* (Seoul: Korean Overseas Information Service, 1995), pp. 7-16.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ See *Korea Update* 7, no. 4 (March 1996).

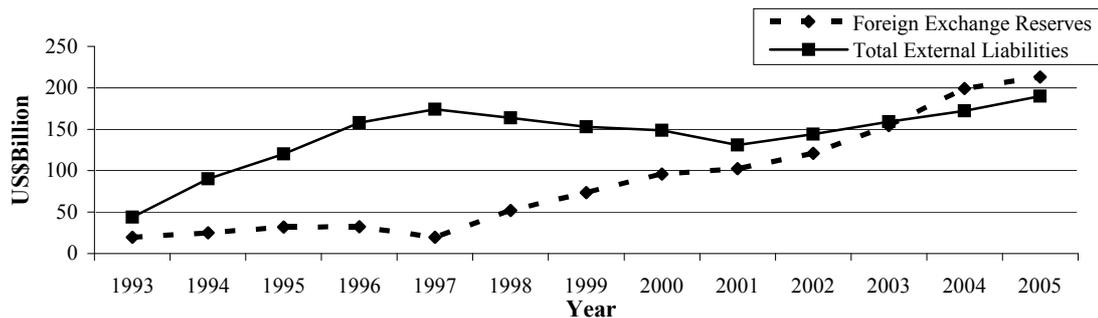
¹⁶ *Seggyehwach'ujinwiwŏnhoe, Seggyehwa ūi bijŏn gwa ch'ŏllyak* [Vision and Strategy of Seggyehwa] (Seoul, 1995).

¹⁷ Office of the President, *Korea's Quest for Reform and Globalization: Selected Speeches of President Kim Young Sam, Vol. II* (Seoul, 1997), p. 132.

The purposes of these reforms were to enable the country to successfully join the Organization for Economic Cooperation and Development (OECD) before the end of 1996.¹⁸ OECD membership was as planned achieved in December 1996, and the president in his remark at the celebration of this achievement, promised the South Korea would increase its efforts “to further promote substantive change and reform in each field of national activity, while further broadening the scope of globalization.”¹⁹ However, while the rhetoric was extensive and the number of reports outlining strategy was staggering, as the president during 1995 increasingly turned into a lame duck, the *seggyehwa* policy became less and less substance and all that was left was the rhetoric. The lost opportunity to pursue the envisioned reforms to their conclusion, probably meant the government was badly prepared for the abrupt change in the international economic situation in the fall of 1997. A series of corporate bankruptcies, beginning with Kia Automobiles, following upon a financial meltdown in Thailand, revealed deep structural problems in the South Korean economy. The crisis was deepened by the fact that while the *seggyehwa* policy had meant an a liberalization of the financial system and had seen a significant increase in hot-money entering the country, reforms of the institutional set-up, especially breaking the old government-business nexus, had not been completed as the *seggyehwa* policy with the drop in the president’s popularity after his son’s arrest for corruption, had become nothing but rhetoric. During Kim Young-sam’s term in office foreign debts rose from \$43.9 billion in 1994 to \$160.7 billion in 1996 and \$158 billion in 1997, while foreign reserves in the same period decreased from \$20.2 billion in 1994 to \$12.4 billion in 1997. The increase in outgoing FDI, that Figure 5 (Outgoing FDI, 1990-2003) indicated was obviously financed through foreign loans made possible by the financial liberalization that was an element in the Kim Young-sam government’s *seggyehwa* policy.

¹⁸ Ibid., p. 137.

¹⁹ Kim Young-Sam, “Remarks at a Reception to Celebrate the Republic of Korea’s Membership in the OECD” in Office of the President, *Korea’s Quest for Reform and Globalization: Selected Speeches of President Kim Young Sam, Vol. II* (Seoul, 1997), p. 296.

Figure 1. Developments in Foreign Debt and Reserves, 1993-2005.

Source: Bank of Korea, *Kyōngjet'onggyeyōnbo 2005* [Economic Statistics Yearbook 2005] (Seoul, 2005).

In fact, at the height of the crisis South Korea's attempt at defending its currency meant that the Bank of Korea held less than \$8 billion in available reserves, leading to widespread fears of sovereign default. However, as South Korea was forced to ask the IMF for a bailout, many of the reforms demanded by the IMF, such as a restructuring of the financial sector, improvements in corporate governance, a more flexible labor market, and an acceleration of trade and investment laws, and which were pursued by the incoming president, Kim Dae-jung, were in fact very similar to those developed under the *seggyehwa* policy but which had not been carried out. In late December 1997 a reform package was pushed through the National Assembly even before Kim Dae-jung's inauguration. It established the Financial Supervisory Commission (FSC), liberalized foreign ownership in the Korean stock market, and enforced the independence of the Bank of Korea. Under the slogan "Parallel Development of Democracy and Market Economy" Kim Dae-jung used the IMF as a cover to pursue many of the reforms envisioned under Kim Young-sam's *seggyehwa* policy, but which the Kim Young-sam government had failed in getting implemented due to wide spread resistance within the bureaucracy and the business world.²⁰ The Kim Young-sam government had also undermined its own crisis management capability by frequently replacing key economic officials such as the deputy prime minister (seven times) and the senior presidential secretary for economic affairs (six times).

Although he abolished the government run Committee to Promote Globalization, the new government under Kim Dae-jung did not abandon the *seggyehwa* policy, as it embraced further financial liberalization and globalization as the only way for South Korea to escape the crisis, and for that he saw a need for FDI in achieving long-term financial stability.²¹ He even, as a first, allowed hostile foreign mergers and acquisitions of South Korean corporations.

By shifting from the earlier heavy reliance on loans to FDI, the government hope it would reduce its vulnerability to external shocks, ease the pressures of debt service, attract much needed new technologies, and stimulate new corporate governance. Thus using IMF prescriptions as cover, the government succeeded within a few months in passing most of the reforms that had bugged down the Kim Young-sam government as he increasingly became a lame duck from 1995 onwards. By mid-1997 the *seggyehwa* project had bugged down because of resistance from corporations, politicians, and from the bureaucrats meant to implement the reform. The president, who had invested *seggyehwa* with being the focus of the last half of his presidency had with the arrest of his second eldest son lost all moral legitimacy and become a lame duck. Any further reforms would have to await the winner of the December 1997 presidential election. He would also, have to deal with a disastrous financial crisis that, as turned out, would become a blessing in disguise as it gave political cover to pursue further liberalization of the South Korean economy. The article will now turn to an analysis of the developments in trade and foreign direct investment.

²⁰ Kim Dae-jung had in his *Daejung kyōngjeron* [Mass-participatory Economy] (Seoul: Chōngsa, 1986) revealed many of his populist ideas for reform of the South Korean economy. The IMF mandated restructuring was later incorporated in government publication entitled published by the Ministry of Finance and Economy and the Korea Development Institute, *Djnomics: kukminhwa hamgge naeil ul yōnda* [Djnomics: Open Tomorrow with the People] (Seoul: Taehan minkuk jōngbu, 1998).

²¹ It is significant that Kim Dae-jung mentioned both *seggyehwa* and the need for inducing FDI in his inauguration speech. See Kim Dae-jung, "Let Us Open a New Era: Overcoming National Crisis and Taking a New Leap Forward" *Korea Observer*, Vol. XXIX, No. 1 (Spring 1998), pp. 223-233.

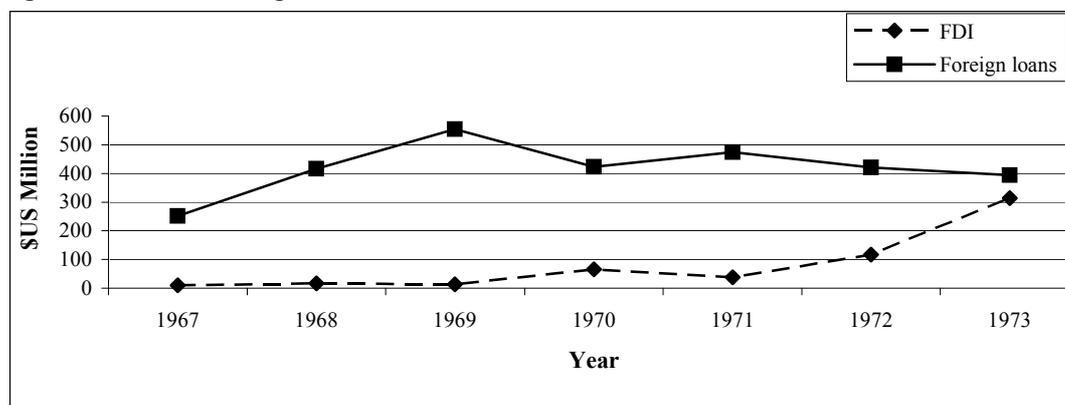
III. Trade and FDI in the South Korean ‘Miracle’

A 2002 World Bank Policy Research Report argued that foreign direct investment had a number of benefits, such as “increased supply of capital and access to technology, management, and markets” for developing countries.²² FDI also brings in superior technological and management techniques, increases competition in the host economy, and might help a developing country in bridging the foreign exchange gap.

Hence developing countries should take advantage of FDI, but in fact, South Korea was rather hostile to FDI during its take-off phase.

South Korea saw a rapid economic take-off during the late 1960s and early 1970s. This was done through an export-oriented industrialization in which the state played a leading role in the formation and mobilization of resources.²³ During those years the country was an extensive net capital importer, as it relied mainly on foreign borrowing instead of encouraging foreign direct investment.²⁴ The relative low level of significance of the foreign direct investment in the South Korean economic take-off, can be explained by the fact the government was unwilling to let foreign companies gain control over or exercise autonomy over the companies in which they invested.²⁵ The Park Chung-hee government was very worried about a de-nationalization of South Korea industry, a fear rooted in the colonial experience of Korea under the Japanese.²⁶ In fact, as I will argue later in this paper, South Koreans tend still to view foreign investment, and especially M&A’s, with suspicion.

Figure 2. FDI and Foreign Loans, 1967-1973.



Source: L.L. Wade and B.S. Kim, *The Political Economy of Success: Public Policy and Economic Development in the Republic of Korea* (Seoul: Kyung Hee University Press, 1977), pp. 107-109.

However, the government did in 1965, with the normalization of diplomatic relations with Japan, also attempt to attract some direct investments to South Korea, but as figure 2 clearly shows it was first with the implementation of the Heavy and Chemical Industrialization program in the early 1970s that South Korea saw a significant increase in the importance of FDI, as major foreign lenders such as the World Bank refused to support the program, and the government as a consequence actively sought out FDI. However, as argued by Sakong Il, the government still as policy enforced strict regulation on foreign equity share limits.²⁷ As the HCI policy was seen as having national security

²² The World Bank, *Globalization, Growth, and Poverty: Building an Inclusive World Economy* (Washington D.C.: The World Bank and Oxford University Press, 2002), p. 10.

²³ For a good introduction to South Korea’s economic development see Byung-Nak Song, *The Rise of the Korean Economy* (Hong Kong: Oxford University Press, 1990).

²⁴ Dwight H. Perkins, “Structural Transformation and the Role of the State: Korea, 1945-1995” in Dong-Se Cha, Kwang Suk Kim, and Dwight H. Perkins, eds., *The Korean Economy 1945-1995: Performance and Vision for the 21st Century* (Seoul: Korea Development Institute, 1997), p. 87. See also Kwang Suk Kim and Sung Duk Hong, *Accounting for Rapid Economic Growth in Korea, 1963-1995* (Seoul: Korea Development Institute, 1997).

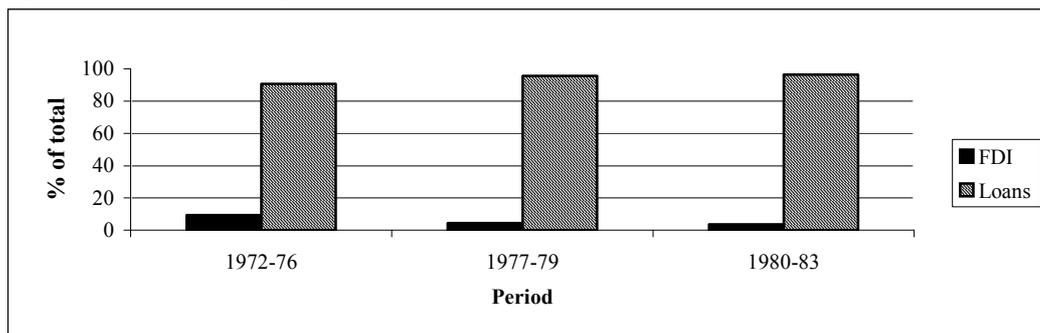
²⁵ Junsok Yang, “Regulatory Reform in Korea: At Crossroads” in Ministry of Foreign Affairs and Trade & Korea Institute for International Economic Policy, *Korea in the OECD Perspective: Shaping up for Globalization* (Seoul, 2000), p. 147.

²⁶ On the colonial experience see for instance Carter J. Eckert, *Offspring of Empire: The Koch’ang Kims and the Colonial Origins of Korean Capitalism* (Seattle and London: University of Washington Press, 1991) and Dennis L. McNamara, *The Colonial Origins of Korean Enterprise, 1910-1945* (Cambridge: Cambridge University Press, 1990).

²⁷ Sakong Il, *Korea in the World Economy* (Washington D.C.: Institute for International Economics, 1993), p. 114.

implications, the limits on foreign equity shares were even tightened within those sectors. Throughout the 1970s these policies basically remained in place. However, by the late 1970s the government recognized the distortions resulting from the emphasis on heavy and chemical industrialization (HCI) policies pursued since 1972, and in April 1979 it announced a Comprehensive Measures for Economic Stabilization (CMES) program. It was an attempt at initiating a new direction for the economy away from the excessive interference in the economy the 1960s and 1970s saw. The program emphasized price stability, the establishment of an unbiased incentive structure, and the promotion of competition both within the domestic market and from abroad. Liberalization of imports and FDI was announced to promote the more efficient allocation of resources and to reduce the strangle hold of the chaebol.

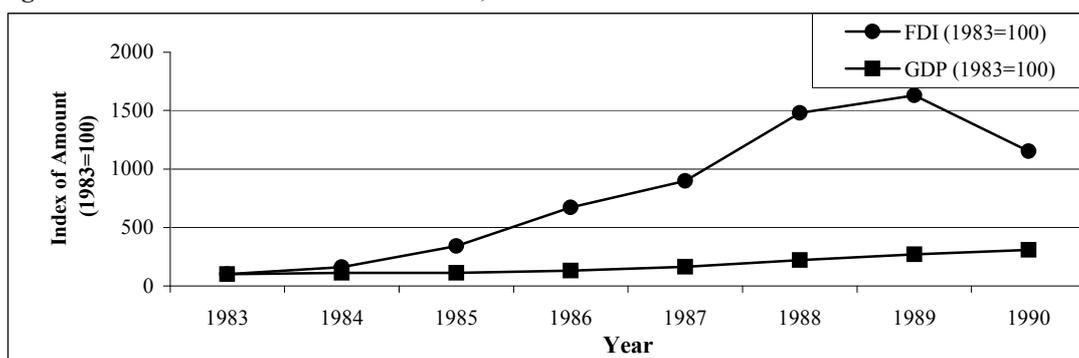
Figure 3. FDI and Foreign Loans, 1972-1983.



Source: Economic Planning Board, *Handbook of the Korean Economy* (Seoul, 1983).

Behind the liberalization was both the realization by the South Korean government that there was a need to increase domestic competition, and the fact that the country was under increasing pressures from trade partners, mainly the U.S., to open the South Korean economy.²⁸ Under threat by the Section 301 of the 1974 Trade Act, these policy initiatives were followed in 1984 by the implementation of a Foreign Capital Inducement law, which saw a move from a positive list to a negative list system for FDI. Further liberalization followed as South Korea from 1988 was threatened by the Super 301 provisions of the Omnibus Trade and Competitiveness Act. Foreign investment did increase, even outpacing GDP growth, as result of these policy changes as figure 4 establishes.

Figure 4. Trends in FDI and GDP Growth, 1983-1990.



Source: Bank of Korea, *Kyŏngjet'onggyeyŏnbo 2004* [Economic Statistics Yearbook 2004] (Seoul, 2004).

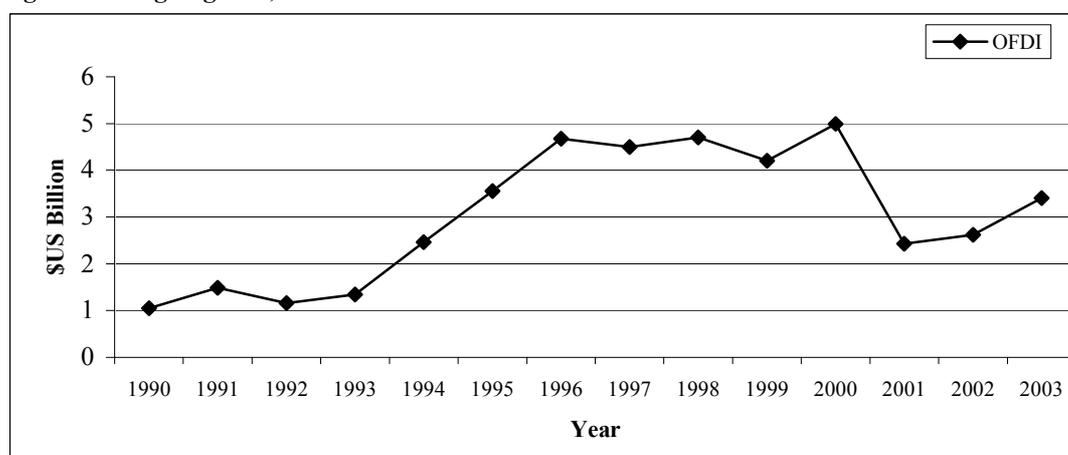
²⁸ Chan-Hyun Sohn, Jungsok Yang, and Hyo-Sung Yin, "Korea's Trade and Industrial Policies: 1948-1998. Why the Year of Active Policy is Over?" *KIEP Working Paper 98-05* (Seoul: Korea Institute for International Economic Policy, 1998), p. 49

In 1985 more than one hundred additional sectors were eliminated from the negative list, and in 1987 yet an additional twenty-six manufacturing industries were opened to FDI. In fact, almost seventy percent of the incoming FDI in the period 1962 to 1991 went to the manufacturing sector.²⁹ In early 1989 South Korea came under increased pressure as the U.S. sought the force open the Korean financial market. However, no real progress was made during the last three years of the Roh Tae-woo government.

However, in 1993 the incoming Kim Young-sam administration attempted to head off further U.S. pressure by including in the New Five-Year Economic Plan for 1993-1997, various financial liberalization measures in order to successfully join the OECD which had become a major political goal for the president and his administration.³⁰ The president promised that his “New Economy” policy would decrease the size and role of the government in the economy.³¹ In particular the president pointed out the need for further reforms and liberalization of the financial sector in order to “bring it more in line with global trends.”³² In early 1994 the Ministry of Finance announced new rules and regulations both for inward FDI and outwards FDI. Then in the spring of the same year, the Economic Planning Board, before it was merged with the Ministry of Finance, set out 12 tasks for the globalization of the economy in the WTO economy. Late 1994 saw further market liberalization of interest rates, and the announcement of a foreign exchange reform plan furthering the opening of the South Korean capital market. These measures were, in fact, well underway when the president in November 1994 outlined his *seggyehwa* project. By June 1995 when the president was in France in connection with South Korea’s pursuit of OECD membership, the economic aspects of *seggyehwa* had become more explicit. The purpose of this was to make the country’s corporations world class, open up markets, and increase FDI.

An unintended consequence of the financial liberalization was that major South Korean corporations got better access to the international financial market, and they began to invest significant amount overseas, often borrowing the money from foreign sources. This led the government in October 1995 to attempt to impose more stringent financial requirements for South Korean firms investing overseas, as the government feared the consequences of the exodus for national industry and employment. However, these policies failed as figure 5 on the OFDI trend clearly shows.

Figure 5. Outgoing FDI, 1990-2003.



Source: Bank of Korea, *Kyŏngjet'onggyeyŏnbo 2004* [Economic Statistics Yearbook 2004] (Seoul, 2004).

²⁹ Bank of Korea, *Kyŏngjet'onggyeyŏnbo* [Economic Statistics Yearbook] (Seoul, various issues).

³⁰ Some people have claimed that *seggyehwa* policy was nothing but an attempt at mitigating U.S. pressure. See for instance Kang Jun-man, *Kim Young-sam Ideollogi* [Kim Young-sam Ideology] (Seoul: Gaemangowŏn, 1995), p. 145.

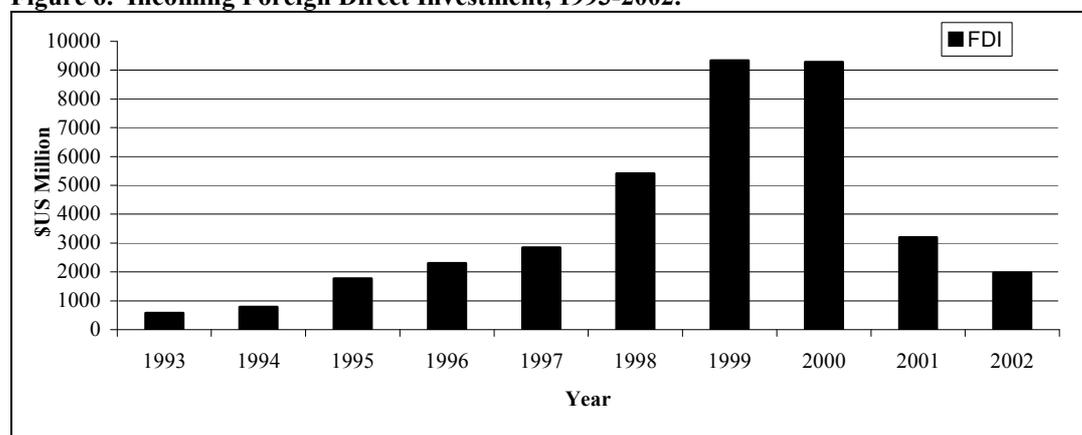
³¹ See Government of the Republic of Korea, *Sinkyŏngje 5-gaenyŏnbo (93-97)* [The New 5-Year Economic Plan (93-97)] (Seoul, 1993).

³² The president continued to emphasize this point, see for instance also Kim Young-Sam, “Remarks at a Reception to Celebrate the Republic of Korea’s Membership in the OECD” in Office of the President, *Korea’s Quest for Reform and Globalization: Selected Speeches of President Kim Young Sam, Vol. II* (Seoul, 1997), p. 297.

The government also tried to remedy the problem by deciding to accelerate the liberalization of foreign investment into Korea. This development was quickened with the Economic Planning Board (EPB) preparing a comprehensive liberalization schedule in connection with the inauguration of the WTO scheduled for January 1995.

Late 1996 saw, as mentioned, South Korea successfully join the OECD, and also the enactment of a newly reformed Foreign Capital Inducement Act liberalizing mergers and acquisitions through inwards FDI as promised during the membership negotiations.

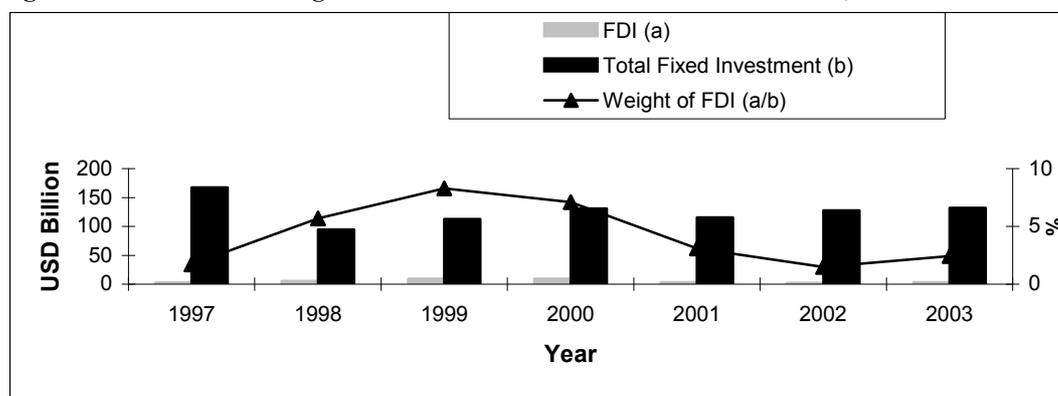
Figure 6. Incoming Foreign Direct Investment, 1993-2002.



Source: National Statistical Office, *Hangukt'onggyeyōngam 2003* [Korea Statistical Yearbook, 2003] (Seoul, 2004).

Figure 6 clearly shows that government policy did in fact have some success in attracting FDI, but throughout the Kim Young-sam administration (1993-1997), outgoing foreign direct investment remained larger in than incoming, as South Korean corporation took advantage of the liberalized financial environment to seek out cheaper labor cost.³³

Figure 7. Amount and Weight of FDI as Share of Total Fixed Investment, 1997-2003.



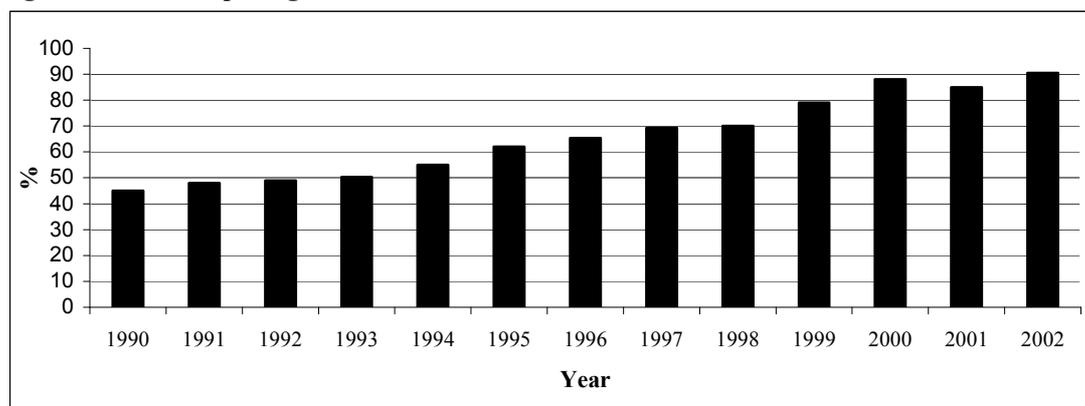
Source: National Statistical Office, *Hangukt'onggyeyōngam 2003* [Korea Statistical Yearbook, 2003] (Seoul, 2004).

In early 1998, the government opened the capital and real-estate markets to FDI, and it even allowed hostile takeovers by foreign firms, including in the financial sector. The Act on Foreign Direct Investment and Foreign Capital Inducement retained a negative list system, and there was a significant

³³ While the US remained a major recipient of South Korea FDI, the majority of outgoing FDI went to Asia and Latin America.

decrease in the number of sectors closed to FDI.³⁴ As a simple calculation of market opening makes clear, we saw a continuing trend in regards to the openness of the South Korea economy.³⁵

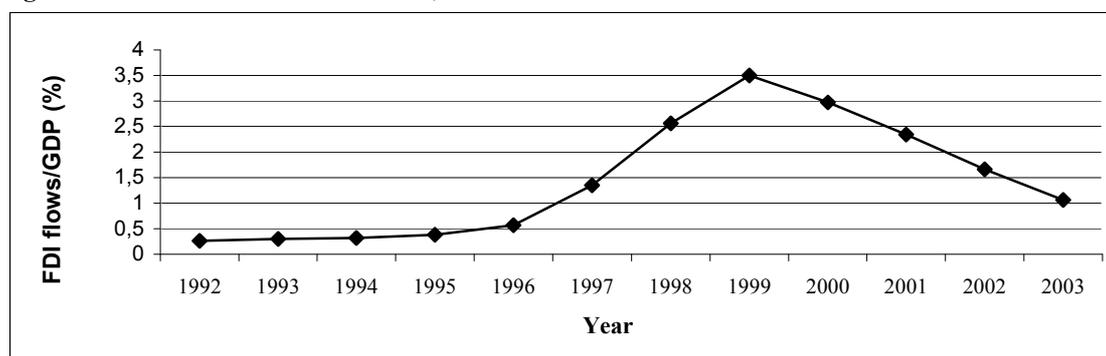
Figure 8. Market Opening in South Korea, 1990-2002.



Source: Bank of Korea, *Kyōngjet'onggyeyōnbo 2004* [Economic Statistics Yearbook 2004] (Seoul, 2004). Note: Market opening = [(Export and Import of goods and services in real terms)/Real GDP] *100.

However, while South Korea has attracted significant amounts of FDI since the 1997 crisis, as hoped by the government, most of these investments have gone into M&As and not green field investments. And while South Korean outgoing FDI mainly has targeted the manufacturing sector, incoming FDI has seen significant investments in the financial sectors, with most banks now being owned outright by foreign interests or having significant foreign minority stakes, and with the exception of 1996 and 1998, the service industry has dominated as recipient of FDI.

Figure 9. FDI Flows as Share of GDP, 1992-2003.



Source: Bank of Korea, *Kyōngjet'onggyeyōnbo 2004* [Economic Statistics Yearbook 2004] (Seoul, 2004).

The current South Korean administration has recognized the importance of attracting more FDI in order to reach the goal of doubling the nation's per capita income to \$US 20,000. It argues that as the country's ratio of FDI to GDP has remained significantly below OECD average, there is significant room for additional FDI attraction.³⁶ As a consequence the government has enhanced the incentives for FDI by revising the Foreign Investment Promotion Act. In fact more than eighty-two per cent of cumulative FDI into South Korea has taken place since 1997. At the same time, South Korean companies are becoming increasingly worried about the pattern of hostile M&As that presently are threatening a number of companies, for instance Samsung Corporation by the British institutional fund

³⁴ Attachment 2 listed twenty-four industries still closed to FDI. These were mainly within the sectors such as national postal activities, local and national government activities, primary and secondary education. In addition, there were a number of industries where FDI remained restricted, but of which many were scheduled for liberalization. See Ministry of Finance and Economy, *Act on Foreign Direct Investment and Foreign Capital Inducement: Enforcement Degree, Working Rules and Regulations on Foreign Direct Investment* (Seoul, 1997), attachment 1, pp. 129-130 & attachment 2, pp. 131-149

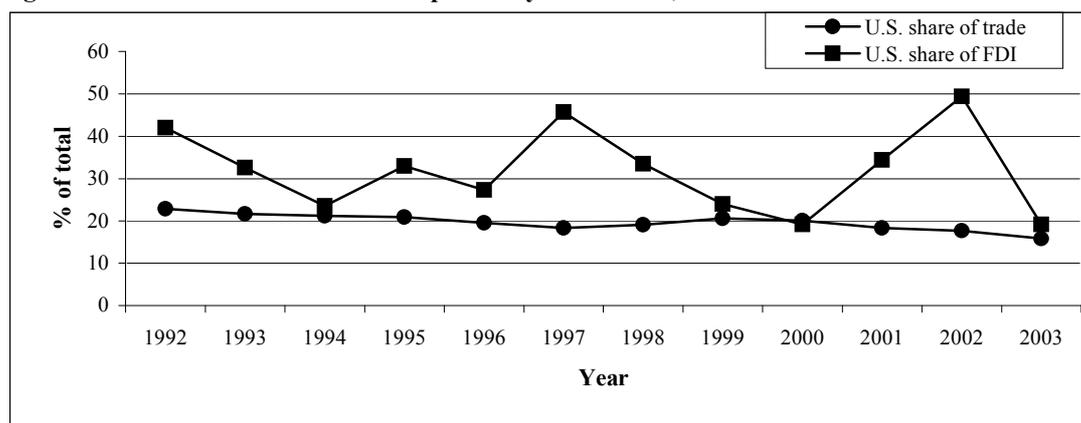
³⁵ For a comparative analysis of market opening see Paul Hirst and Grahame Thompson, *Globalization in Question* (Cambridge: Polity Press, 2000), pp. 126-133.

³⁶ Seo Jee-yeon, "FDI Key to Doubling National Income" *The Korea Times*, 12 September 2004.

Hermes.³⁷ There was a similar interest in equity investments in South Korea, with foreign investors holding forty-four per cent of the shares listed on the Korea Stock Exchange. And while there has been a significant increase in incoming FDI, South Korea corporations have also restarted their overseas investment drive as outgoing FDI reached \$US 5.52 billion for the first seven months of 2004, an 34 per cent increase compared to 2003.³⁸

An element of both the economic and political side of the *seggyehwa* policy developed under Kim Young-sam, was the intent of diversifying from the large dependency on the U.S., in the economic arena, as both a FDI supplier and as a trade partner. With China in 2004 overtaking the U.S. as South Korea's largest trade partner and the EU becoming increasingly important both as a trade partner and FDI supplier with the EU surpassing the U.S. as South Korea's main FDI source in 2003 with 47.3 per cent of total inward FDI. However, the number for the first half of 2004 indicates that the U.S. has reclaimed its position as South Korea's main FDI source.

Figure 10. Korea's Trade and FDI Dependency on the U.S., 1992-2003.



Source: Bank of Korea, *Kyōngjet'onggyeyōnbo 2004* [Economic Statistics Yearbook 2004] (Seoul, 2004).

South Korea's attempt to diversify from its dependency on the U.S. in the economic sphere must hence be said also only to be a qualified success.

IV: Conclusion

Globalization in South Korean was initiated by the government as a state-enhancing, top-down policy. The strategy behind was to enable the country to join the club of advanced nations. However, while rhetoric was extensive on intentions and methods, these were not followed through in a comprehensive and coherent way. While more opened for FDI than earlier administrations, the Kim Young-sam government still feared domination by foreign corporations, and the result was a continued over-reliance on foreign loans that ultimately led to the undoing of the South Korean developmental state and the loss of economic autonomy as a requirement for IMF assistance. This again led to an increase in nationalistic sentiment in the country, as the people, journalists, and even many government officials, saw the consequences of globalization as a hidden agenda of foreign investors eager to acquire South Korean corporations at fire-sale prices. Korean cultural nationalism must be seen as a continuing brake on the country's globalization. In fact, FDI seemed to have reached a plateau in 2001-2003, and foreign business leaders have since that time complained that closing deals has become more difficult.³⁹ However, we have seen major deals take place, for instance the GM takeover of Daewoo, Citigroup's recent acquisition of KorAm Bank (now Citibank) for \$US 1.7 billion, and Shanghai Automotive Industry Corp's takeover of Ssangyong Motors. In fact, the numbers for the first half of 2004 indicate an 89.6 per cent increase in FDI compared to the first six months of 2003.⁴⁰ If this is due to the current Roh Mu-hyun government working to improve the investment climate through tax breaks and cash grants in South Korea remains at this point unclear.⁴¹

There must lie some irony in the fact that while South Korea has pursued a globalization policy for decade, it has still seen its national competitiveness drop from number 26 in 1995, 30th in 1997,

³⁷ Lee Hyo-sik, "Samsung Says British Fund Threatens Management" *The Korea Times*, 28 October 2004.

³⁸ Ibid., "Outbound Direct Investment Surges by 34 Percent" *The Korea Times*, 28 October 2004.

³⁹ "Culture Clash Blocks Investment in South Korea" *Financial Times*, 21 January 2002.

⁴⁰ *Korea Economic Insight*, vol. 6, no. 8 (August 2004).

⁴¹ Seo Jee-yeon, "FDI Powers Economic Growth" *The Korea Times*, 12 September 2004.

35th position in 1998, 37th in 2003 and again 35th in 2004.⁴² Developments in trade and FDI also show that South Korea throughout the main period of the implementation of its globalization project saw its competitiveness fall. Table 1 records the country's export and import amount since 1992, and a simple index of export/import since 1992. With 1.00 being when the country exports exactly as much as it imports, when the index is below 1.00 the country imports more than it exports. A higher index implies stronger international competitiveness.

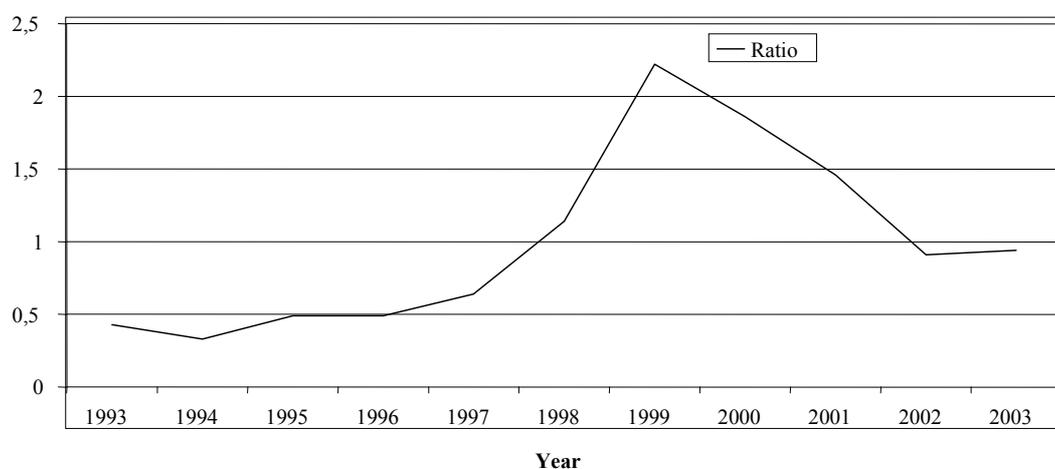
Table 1. Export and Import of South Korea, 1992-2003.

Year	Export (\$US Million)	Import (\$US Million)	Export/Import Ratio
1992	76,632	81,775	0.94
1993	82,236	83,800	0.98
1994	96,013	102,348	0.94
1995	125,058	135,119	0.93
1996	129,715	150,339	0.86
1997	136,164	144,616	0.94
1998	132,313	93,281	1.42
1999	143,685	119,752	1.20
2000	172,267	160,481	1.07
2001	150,439	141,097	1.06
2002	162,470	152,126	1.07
2003	193,817	178,826	1.08
2004	257,710	220,141	1.17
2005	288,996	255,523	1.13

Source: Bank of Korea, *Kyŏngjet'onggyeyŏnbo 2005* [Economic Statistics Yearbook 2005] (Seoul, 2005).

We can also estimate competitiveness by calculating locational attractiveness, which is an index of inward/outward FDI.⁴³ A higher level of inward FDI implies an enhanced international competitiveness. The country is then seen as offering a number of favorable conditions for attracting foreign resources, and those resources can be translated into increased competitiveness through a number of mechanisms, for instance by increased investments in fixed assets or in technological know-how. While one could argue that in case FDI is motivated by the possibility of taking advantage of cheap labor, it would not necessarily imply a positive contribution to competitiveness, in the South Korean case, at least since 1990, it is unlikely the FDI has been motivated by such considerations as labor costs rose significantly with the start of democratization in 1987. Table 2 shows inward and outward FDI, as well as inward/outward index. When the inward/outward index is above 1.00, the country attracts more inward FDI than it sends out of the country.

Figure 11. South Korean Inward/Outward FDI Ratio, 1992-2003.



⁴² Institute of Management and Development, *The World Competitiveness Yearbook* (Lausanne, Switzerland, various years).

⁴³ For a comparative analysis using locational attractiveness see Paul Hirst and Grahame Thompson, *Globalization in Question*, p. 122.

Source: Bank of Korea, *Kyōngjet'ongveyōnbo* [Economic Statistics Yearbook] (Seoul, 2004).
 Note: Calculation based on national account data, and is hence different from notification figures.

Both the export/import index and the inward/outward FDI index show that South Korea's international competitiveness did not increase in any significant way during the state formulated *segvehwa* policy of the Kim Young-sam administration. The first few years after the crisis saw the competition indexes rise, but since 1999, when the Kim Dae-jung government declared the crisis over, South Korea has lost competitiveness again. It could seem like the country is slowly losing the competitiveness it gained during the crisis. In regards to market and production globalization, Kim Young-sam's pledge to elevate South Korean competitiveness through his *segvehwa* project proved to be an empty promise, resulting in an acute financial crisis which was only dealt with by IMF intervention. The failure of Kim Young-sam's *segvehwa* project may have been due to resistance to the reforms from labor, corporate management, and government bureaucrats. In addition, the sequencing might have been problematic, as no real realignment of domestic institutions and policies were completed before market opening and financial liberalization.

However, IMF conditions gave his successor, Kim Dae-jung, the needed coverage and leverage to push through the unfinished tasks of globalization by removing most existing barriers to economic liberalization, which the Kim Young-sam government had struggled to change for five years. Foreign ownership of land, merger and acquisitions of domestic enterprises by foreign corporations, and even hostile takeovers, which all were strongly resisted by vested interests during the Kim Young-sam administration, were now radically liberalized under cover of IMF prescriptions. However, there has been some resistance to the globalization project and to what some have seen as a 'sell-out' of national industry, and this has led to an increasing formation of anti-globalization groups in the country, and some politicians have even used these sentiments for electoral purposes.⁴⁴ The Tripartite Commission of Labor, Business, and Government (*nosajōnguiwōnhoe*) established by the Kim Dae-jung government in January 1998, as South Korea's first attempt at corporatism, and which through the establishment of the "Social a Agreement on Overcoming the Economic Crisis," and which meant to deal with the crisis through compromise, failed as labor saw the burden of the crisis unfairly distributed, and relations between government and the two major labor unions have since been contentious as the unions increasingly have seen globalization as threat. South Korean political leaders saw globalization as a means of obtaining a competitive edge for the nation in what they saw as the boundless competition of the world economy. However, while South Korean businesses in general has benefited from globalization, workers have, as said, increasingly seen globalization as a treat to their livelihood. The imposed flexible labor market conditions have in the workers view weakened their bargaining power.⁴⁵ However, that said, it has also strengthened workers' political organizational power, as laws previously banning multiple labor unions and limiting unions' political activities have been lifted.

What is clear though is that current developments in South Korea seem to entail two contradictory impulses, nationalism and globalization.⁴⁶ But looking at how globalization was perceived and begun by the Kim Young-sam government back in 1993, this should not come as a surprise because the whole endeavor was very much begun with a nationalistic agenda, and to a significant degree the triggers for reform were external factors: in 1993 the desire to become a member of the OECD and in 1997-98 the prescriptions forced upon the country by the IMF. In addition, in contrast to Kenichi Ohmae's claim about the demise of the nation state in an era of globalization, the South Korea case proves that the state very much still plays a significant role in shaping the nation's globalization processes.⁴⁷

V. Bibliography.

⁴⁴ See the remarks on this by a former chairman of the Presidential Commission for Policy Planning, Kim Tae-dong, "Challenges of Globalization in Korea" in Ministry of Foreign Affairs and Trade & Korea Institute for International Economic Policy, *Korea in the OECD Perspective: Shaping up for Globalization* (Seoul, 2000), p. 186.

⁴⁵ See for instance the journal *Civil Society* published by the Coalition for Economic Justice and Development.

⁴⁶ There are still those who have a critical view of FDI. Kim Tae-gyu, "Citigroup Devours Korea's Lucrative Market" *The Korea Times*, 9 November 2004.

⁴⁷ Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies* (London: HarperCollins Publishers, 1995).

Ahn Byung-Young and Im Hyug-Baek, eds., *Segyehwa-wa sinjayujuui*[Globalization and Neoliberalism: Idea, Reality and Responses] (Seoul, Nanam, 2001).

Alice Amsden, *Asia's Next Giant: South Korea and late Industrialization* (Oxford and New York: Oxford University Press, 1989).

Bank of Korea, *Kyöngjet'onggyeyönbo 2004* [Economic Statistics Yearbook 2004] (Seoul, 2004).

Peter Beinart, "An Illusion of Our Time: The False Promise of Globalization," *New Republic*, 20 October 1997, 20-24.

Mark T. Berger, *The Battle for Asia: From decolonization to globalization* (New York: RoutledgeCurzon, 2004).

Douglas H. Brooks, Emma Xiaoqin Fan, and Lea R. Sumulong, "Foreign Direct Investment: Recent Trends and the Policy Context" in Douglas H. Brooks and Hal Hill, eds., *Managing FDI in a Globalizing Economy: Asian Experiences* (New York: Palgrave, 2004), pp.1-28.

Douglas H. Brooks and Hal Hill, eds., *Managing FDI in a Globalizing Economy: Asian Experiences* (New York: Palgrave, 2004).

Dong-Se Cha, Kwang Suk Kim and Dwight H. Perkins, eds., *The Korea Economy 1945-1995: Performance and Vision for the 21st Century* (Seoul: Korea Development Institute, 1997).

Carter J. Eckert, *Offspring of Empire: The Koch'ang Kims and the Colonial Origins of Korean Capitalism* (Seattle and London: University of Washington Press, 1991).

Economic Planning Board, *Handbook of the Korean Economy* (Seoul, 1983).

Government of the Republic of Korea, *Sinkyöngje 5-gaenyönbo (93-97)* [The New 5-Year Economic Plan (93-97)] (Seoul, 1993).

David Held & Anthony McGrew, *Globalization/Anti-Globalization*, Polity Press, 2002.

David Held & Anthony McGrew, David Goldblatt & Jonathan Perraton, *Global Transformations: Politics, Economics and Culture*, Stanford University Press, 1999.

Paul Hirst and Grahame Thompson, *Globalization in Question* (Cambridge: Polity Press, 2000).

Wontack Hong, ed., *Trade and Growth: A Korean Perspective* (Seoul: Kudara International, 1994).

Institute of Management and Development, *The World Competitiveness Yearbook* (Lausanne, Switzerland, various years).

Kenneth L. Judd & Young Ki Lee, eds., *An Agenda for Economic Reform in Korea: International Perspectives* (Stanford and Seoul: Hoover Institution Press and Korea Development Institute, 2000).

Kang Jun-man, *Kim Young-sam Ideollogi* [Kim Young-sam Ideology] (Seoul: Gaemangowön, 1995).

Kim Dae-jung, "Let Us Open a New Era: Overcoming National Crisis and Taking a New Leap Forward" *Korea Observer*, Vol. XXIX, No. 1 (Spring 1998), pp. 223-233.

Kim Dae-jung, *Daejung kyöngjeron* [Mass-participatory Economy] (Seoul: Chöngsa, 1986).

Kim Ki-tae, Yi Jae-ün, Kim Jae-hun, Kim Söng-gi, *Hangukkyöngje* [The Korean Economy] (Seoul: Hanul, 1998).

Kim Kyeong-won, ed., *Post-Crisis Transformation of the Korean Economy: A Review from 1998 to 2002* (Seoul: Samsung Economic Research Institute, 2003).

- Kim Young-sam's recollection of the event in Kim Young-sam, *Kim Young-Sam taet'ongnyŏng hoegorok, sang* [President Kim Young-sam's Memoirs, vol. 1] (Seoul, Chosŏn Ilbosa, 2001).
- Kwang Suk Kim and Sung Duk Hong, *Accounting for Rapid Economic Growth in Korea, 1963-1995* (Seoul: Korea Development Institute, 1997).
- Sakong Il, *Korea in the World Economy* (Washington D.C.: Institute for International Economics, 1993).
- Samuel S. Kim, ed., *Korea's Globalization* (Cambridge University Press, 2000).
- Sunhyuk Kim and Doh Chull Shin, *Economic Crisis and Dual Transition in Korea: A Case Study in Comparative Perspective* (Seoul: Seoul National University Press, 2004).
- Tat Yan Kong, *The Politics of Economic Reform in South Korea: A Fragile Miracle* (London and New York: Routledge, 2000).
- Korea Overseas Information Service, "Explanatory Notes on President Kim Young Sam' Blueprint for the *Segyehwa* Policy," in *The Segyehwa Policy of Korea under President Kim Young Sam*, Korean Overseas Information Service, July 1995.
- Korea Overseas Information Service, *Kim Young Sam: Creating a New Korea* (Seoul: 1993).
- Richard W. Mansbach and Dong Won Suh, "A Tumultuous Season: Globalization and the Korean Case," *Asian Perspective* 22, no. 2 (1998).
- Dennis L. McNamara, *The Colonial Origins of Korean Enterprise, 1910-1945* (Cambridge: Cambridge University Press, 1990).
- Chung-in Moon, "Globalization: Challenges and Strategies," *Korea Focus* 3, no. 3 (May-June 1995), pp. 64-67.
- Ministry of Finance and Economy and the Korea Development Institute, *Djnomics: kukminhwa hamgge naeil ul yŏnda* [Djnomics: Open Tomorrow with the People] (Seoul: Taehan minkuk jŏngbu, 1998).
- Ministry of Finance and Economy, *Act on Foreign Direct Investment and Foreign Capital Inducement: Enforcement Degree, Working Rules and Regulations on Foreign Direct Investment* (Seoul, 1997).
- Ministry of Foreign Affairs and Trade & Korea Institute for International Economic Policy, *Korea in the OECD Perspective: Shaping Up for Globalization* (Seoul, 2000).
- Ministry of Foreign Affairs, *Oegyo paekso* [Diplomatic White Paper] (Seoul, 1994).
- National Statistical Office, *Hangukt'onggyeyŏngam 2003* [Korea Statistical Yearbook, 2003] (Seoul, 2004).
- Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies* (London: HarperCollins Publishers, 1995).
- Office of the President, *Korea's Quest for Reform and Globalization: Selected Speeches of President Kim Young Sam, Vol. II* (Seoul, 1997).
- Dwight H. Perkins, "Structural Transformation and the Role of the State: Korea, 1945-1995" in Dong-Se Cha, Kwang Suk Kim, and Dwight H. Perkins, eds., *The Korean Economy 1945-1995: Performance and Vision for the 21st Century* (Seoul: Korea Development Institute, 1997).
- Michael Reiterer, *Asia-Europe Do They Meet: Reflections on the Asia-Europe Meeting* (Asia-Europe Foundation, 2002).

Dani Rodrik, "Sense and Nonsense in the Globalization Debate," *Foreign Policy* 107 (Summer 1997).

James N. Rosenau, "The Dynamics of Globalization: Toward an Operational Formulation," *Security Dialogue* 27, no. 3 (1996), 247-262

Segyehwach'ujinuiwönhoe, *Segyehwa ũi bijön gwa ch'öllyak* [Vision and Strategy of Segyehwa] (Seoul, 1995).

Chan-Hyun Sohn, Jungsok Yang, and Hyo-Sung Yin, "Korea's Trade and Industrial Policies: 1948-1998. Why the Year of Active Policy is Over" *KIEP Working Paper 98-05* (Seoul: Korea Institute for International Economic Policy, 1998).

Byung-Nak Song, *The Rise of the Korean Economy* (Hong Kong: Oxford University Press, 1990).

The World Bank, *Globalization, Growth, and Poverty: Building an Inclusive World Economy* (Washington D.C.: The World Bank and Oxford University Press, 2002).

L.L. Wade and B.S. Kim, *The Political Economy of Success: Public Policy and Economic Development in the Republic of Korea* (Seoul: Kyung Hee University Press, 1977).

Junsok Yang, "Regulatory Reform in Korea: At Crossroads" in Ministry of Foreign Affairs and Trade & Korea Institute for International Economic Policy, *Korea in the OECD Perspective: Shaping up for Globalization* (Seoul, 2000).