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Illusions of Neoliberalization: The Dual Nature of the Reform of the Bank of Korea since the Economic Crisis of 1997

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Abstract

This article investigates the transformation of the Korean state in the extensive neoliberalization process since the economic crisis of 1997. It challenges the perception of Korea as the paragon of neoliberalization for the Third World and demonstrates the illusion of neoliberalization. Focusing on the reform of Korea's central bank, the Bank of Korea, this article argues that Korea's neoliberalization generated an incongruous combination characterized by the persistent legacies of the prior developmental state under the veil of formal neoliberal scheme of depoliticization. It also argues that behind such double-facedness were the core state elite who operated under the institutional legacy of the prior developmental state in maintaining their power against domestic and international pressure. This article seeks to draw attention to discrepancies between the neoliberal reform of formal institutions and policies at a macro level and their actual and underlying management and nature at a micro level.

Keywords

Neoliberlization, Economic reform, State, Central bank, Political economy, Korea

Introduction

For most of the world other than a few powerful Western economies, neoliberalism is generally viewed as a political-economic ideology aimed at constructing a global system of domination by world powers (see Chang, 2002; Gainsborough, 2010; Köse, Şenses and Yeldan, 2008; Petras et al., 2006). Neoliberal reforms have been often imposed on underdeveloped or crisis-stricken economies by the international donor community dominated by a few world powers, with the US in the lead. In the wake of the 1997 Asian financial crisis, too, many economies in Southeast and Northeast Asia implemented neoliberal reforms as they received financial aid from the international donor community.

Among the hardest-hit economies, Korea was distinctive in terms of its political and economic characteristics. Korea had an already established democracy and was undergoing a process of consolidation. This stable political context led Korea's post-crisis neoliberalization to focus on economic restructuring rather than political reforms or deauthoritarianization. Korea had a sizeable semi-advanced economy which had been achieved by the old developmental state and which international agencies and foreign investors did not have much influence upon. Because the neoliberalization of this relatively large and autonomous economy might significantly benefit international donors through trade and investment, Korea became a major target for neoliberal reform and the government implemented the most radical and systematic neoliberal reform among the crisis-stricken economies (Park and Kim, 1999). As the Korean economy paid off all emergency loans from international donors, especially the IMF, much earlier than expected, it gained fame as a case of successful neoliberal reform.

In this article, I re-examine the Korean experience, which has been regarded as the paragon of neoliberalization for the Third World. By closely investigating the transformation of the former successful developmental state through an extensive neoliberalization process, I challenge the notion of a rise of a model neoliberal state in Korea and argue that there is instead an illusion of neoliberalization. Focusing on the reform of Korea's central bank, or the Bank of Korea (BOK), widely regarded as a central neoliberal reform in the financial sector in Korea, I ask the following questions: What are the major changes in formal institutions and policies, and how neoliberal are they in terms of their actual management? If there are discrepancies between the form and actual management of institutions and policies, why did they emerge? I argue that the Korean state has increasingly been neoliberalized in terms of macro-level formal institutions and policies, but that the underlying attributes of the newly installed institutions and policies at a micro level testify to an incongruous combination characterized by the persistent legacies of the prior developmental state under a visible outer shell made up of neoliberal apparatuses of depoliticization. I also argue that behind the dual nature of this process of neoliberalization were the state elite who operated under the institutional legacy of the prior developmental state in maintaining their power against international pressure and domestic social forces.

In the following section, I discuss how neoliberalism has been understood and provide a practical definition of neoliberalization in the Korean context. I then engage with existing studies on Korea's post-crisis neoliberal reform in order to introduce my own perspective. In the next section, I illustrate the shift of the Korean state from developmental to neoliberal in terms of formal institutional and policy arrangement in the 1990s. Then I closely investigate the reforms of the BOK to demonstrate the the dual nature of the neoliberalization of the Korean state and discuss the reasons behind such neoliberal transformation.

Defining Neoliberalism

Neoliberalism emerged as a revised political project of classical liberalism in the First World in response to the economic misfortune of the second half of the 1970s. It contended that 'states should be rolled back' and that it was necessary to 'leave economies to the efficiency of market forces,' signifying an official break with Keynesian state politics (Kiely, 2005, p. 95). In 1989, it was codified in the form of standardized economic policy prescriptions in relation to the crisis-hit South, especially Latin America, through the Washington Consensus. Representing the views of the US Treasury Department, the IMF, and the World Bank, the Washington Consensus featured the three basic principles of privatization, deregulation and liberalization under the mantra of 'getting the prices right' (see Williamson, 1990).

By the early 1990s, neoliberalism under the Washington Consensus was not delivering on its optimistic promises of economic growth. The Asian financial crisis in the late 1990s induced the revision of neoliberalism, or the so-called 'post-Washington Consensus' (PWC). The World Bank provided the theoretical basis for the PWC, arguing that an effective rather than minimal state is critical to economic and social development as a complementing partner and facilitator of the market (World Bank, 1997, p. 27). In the same vein, Stiglitz (1998), then Senior Vice-President and Chief Economist of the World Bank, argued that effective state regulation is necessary to foster the competition and efficiency of the market. Following suit, the IMF also began to pay attention to the regulatory mechanism of the state, particularly with regards to the financial sector (Fischer, 2001). Still, the PWC did not go against the basic principles of the Washington Consensus as Stiglitz (1998) himself stated ‘once it has performed its catalytic role, the state needs to withdraw’ (p. 26).

As Polanyi (2001[1944]) established, however, markets cannot exist and stand on their own without state intervention. Markets are embedded in the legal, political and ideational frameworks of the state (Block, 2003), and the state always plays a major role in constituting markets; therefore, the state and market economy are not analytically separate realms (Block, 1994; Block and Evans, 2005). While neoliberalism problematizes the state, it inevitably entails certain forms of governance that encourages institutions and individuals to conform to the norms of the market (Larner, 2000, p. 12). In other words, neoliberalism reaffirms the inevitability and legitimacy of the state institutions to secure the market order (Gamble, 2006). Vogel (1996) argues that even in the current era of globalization the state is hardly overwhelmed by international market pressure but reorganizes its control over private sectors by combining liberalization with reregulation under the rubric of deregulation, that is to say ‘freer market, more rules.’ Peck and Tickell (2002) expound such modification of neoliberalism in the 1990s as a shift from ‘roll-back’ to ‘roll-out’ neoliberalism. They argue that neoliberalism evolved from the state-authored destruction of Keynesian institutions as a way of creating the rules of interlocal competition to the purposeful construction of alternative regulatory institutions. Similarly, Levy (2006) argues contemporary globalization has brought about the redeployment of state initiatives, not the erosion of state activism, in forging policies and regulations, both corrective and constructive, in a new market-supporting orientation.

However, the literature on neoliberal regulatory reform has a couple of shortcomings. First, the existing literature largely focuses on advanced industrial economies that are capable of exercising substantial initiative in the world economy (see Burnham, 2001; Krippner, 2007; Levy, 2006; Prasad, 2006; Streeck and Thelen, 2005; Vogel, 1996). It explores how neoliberalization has progressed or faltered as systemic innovation from inside, if sometimes in the face of economic downturn. While it properly acknowledges the role of the state in deregulation under neoliberalism, the literature does not pay sufficient and close attention to the neoliberalization of non-advanced economies.

Non-advanced economies are more likely to be affected by international economic relations, and their neoliberalization processes may be more contentious or dramatic.

More important, the existing literature on neoliberal reform focuses on the macro-level formal innovation of institutions and policies, but it tends to overlook their underlying micro-level management. This analytic focus appropriately draws attention to the formal dismantling of the preceding economic system and the introduction of new neoliberal apparatuses. However, the formal institutional level of analysis may not be adequate to fully understand the character of neoliberalization in non-advanced economies that are under the enormous neoliberal pressure from outside. It fails to grasp potential disparities between conspicuous changes in the formal institutions at a macro level and their underlying management at a micro level.

In addressing the foregoing problems, I adopt Burnham's (2001) and Krippner's (2007) definition of neoliberalization as 'depoliticization.' Burnham describes state activism based on new regulations in the 1990s as depoliticization, a rule-based governing strategy, as opposed to politicization, a discretion-based governing strategy. As he notes, however, depoliticization should not be taken to mean the direct removal of politics from social and economic spheres but 'the process of placing at one remove the political character of decision-making' (Burnham, 2001, p. 136). Krippner employs the concept of depoliticization to explore the evolution of US monetary policy, and argues the Federal Reserve's embrace of transparency represents a 'neoliberal dilemma' that transfers policy implementation to markets while continuing to regulate markets to achieve carefully calibrated economic outcomes. The notion of depoliticization is particularly adequate when it comes to Korea's neoliberalization. Neoliberalization may be defined as a new accumulation project of state and capital where the former is more supportive of the latter than any time before. In Korea, however, this practice is what the old developmental state used to do for decades, albeit in a different way from now. A better definition of neoliberalization in relation to Korea is the removal of arbitrary political influence or leverage from the economic sphere.

Discourse on Korea's Neoliberalization

In the wake of the 1997 financial crisis, many scholars have called attention to the radical neoliberal restructuring that followed and its social and economic impact in Korea (see Cho and Kim, 2000; Crotty and Lee, 2005; Park, 2004; Shin and Chang, 2003). However, they rarely approach Korea's neoliberal reform as an ongoing process in a previously successful developmental state. Park (2002), in his description of the post-crisis state-led restructuring of *chaebols*, observes that the post-1997 marketization reform in Korea was characterized by lingering old *dirigisme* despite the new measures of the state that promoted an open and free market economy. Similarly, Hundt (2005), focusing on the reform of two *chaebols*, Daewoo and Samsung Motors, maintains that the state elite reinforced their own domestic power in the implementation of neoliberal reform such as the official end of the developmental alliance between the state and *chaebols* and the rationalization of uncompetitive industrial sectors through mergers and asset swaps. While both Park and Hundt contribute to clarifying the corporate reforms in the immediate post-crisis period, they merely focus on the fact that the state coercively adopted the initial neoliberal reforms, and pay little attention to the quality of further neoliberalization.

More intensive discussion on Korea's neoliberalization has developed between Jayasuriya (2000) and Pirie (2005, 2008), on the one side, and Weiss (2003) and Wong (2004), on the other. Jayasuriya asserts that '[i]n East Asia, the developmental state is transformed into a regulatory state,' in which 'markets are quarantined from political interference,' but 'the success of this system of market immunization rests on the recognition that a well-functioning market order requires the presence of strong regulatory institutions' (Jayasuriya, 2000, p. 329, 319). Based on this understanding, Jayasuriya maintains that the revised BOK Act in the immediate post-crisis period was clear evidence of the transformation of the Korean state to neoliberalism. The BOK Act effectively entrenched the autonomy of the BOK from political influence, guaranteeing economic constitutionalism (Jayasuriya, 2000, pp. 327–328). Pirie reinforces Jayasuriya's perspective by examining the emergence of new financial regulatory agencies, Financial Supervisory Commission/Financial Supervisory Service, and the process of corporate restructuring, as well as the revised BOK Act. He affirms that Korea underwent a full shift 'from institutional structures that supported interventionist policies to new structures that seek to embed the principles of the contemporary neoliberal order deep within the Korean state' (Pirie, 2005, p. 38). While Jayasuriya and Pirie adequately expand the scope of discussion about the current Korean neoliberalization to address depoliticization, they place excessive emphasis on the evolution of formal institutions at a macro level, while overlooking the underlying qualities and practices of the neoliberal apparatuses at a micro level. They hastily assume a positive relationship between the formal changes, or the alleged commitment of the reform-minded state elite to neoliberalism, and an unproblematic realization of neoliberalism.

In contrast, Weiss characterizes the current Korean state as a 'post-developmental' state, or 'a developmental state that has in some ways toned down its industrial and financial activism, perhaps restructured certain internal arrangements, and redefined its catch-up goals – yet remains distinctively different from its neoliberal Anglo-American counterparts' (Weiss, 2003, p. 268). Weiss, with Thurbon, argues that the Korean state resumed a key coordinating role in the creation of new streamlined national champions in both the corporate and financial sectors in the post-crisis era (Thurbon and Weiss, 2006; Weiss, 2003). Similarly, Wong (2004) describes the present Korean state as a 'postindustrial developmental' state, or a developmental state that has adapted to new industrial imperatives inherent to knowledge-based, innovation-driven industrial development. Examining the transformative growth in the area of biotechnology and bioindustry, Wong argues that the developmental state in Korea has responded to the challenges of innovation-driven industrialization by transitioning from an industrial learning paradigm to a technology creation paradigm and played a critical role in constructing national innovation systems. Both Weiss and Wong take into account the state's initiative in the post-crisis reforms and note that the financial crisis has not disengaged the state from the economy further but rather brought it back in an adaptive way. However, they tend to downplay the significance of evident institutional neoliberal reforms and exaggerate the state's initiative by directly associating it with the pattern of the developmental state. A state with a developmentalistic aspect or a developmentally oriented state is not the same as a developmental state. Any type of state, even the US, allegedly one of the most neoliberal states, may be called developmentalistic when it comes to facilitating or championing particular national industries. In other words, Weiss and Wong focus too much on one aspect of the post-crisis reform, the state's desire for industrial development, just as Jayasuriya and Pirie narrowly focus on another, exterior formal institutional changes. In this sense, like Jayasuriya and Pirie, Weiss and Wong pay insufficient attention to the underlying attributes of the purported neoliberal institutions and policies.

As an attempt to overcome the above-mentioned limitations in the existing discourse, I analyze the internal features of neoliberal institutions and policies in Korea. Clarifying discrepancies between the apparent reform of formal institutions and policies at a macro level and their underlying management at a micro level, I argue that the neoliberalization of the former developmental state in Korea is not true to the neoliberal spirit, not simply because it was heavily directed by the state but because it involved practices that were reminiscent of the old developmental state in the actual management of the new neoliberal apparatuses.

Shift of the Korean State from Developmental to Neoliberal

After a long and successful run as a developmental state, the Korean state adopted neoliberal ideology as a response to the challenges of a world economy under the Kim Young-sam administration. The Korean state physically broke with the four classic institutional elements of the developmental state defined by Chalmers Johnson (1982): the existence of an elite bureaucracy as the manager of the whole process of industrial policies, from the selection of industries and the means to develop them to the guarantee of their success; the existence of a strong pilot agency, or a planning and guiding organization; a particular political system in which the reigning politicians maintain political stability by warding off the demands of interest groups, which would contradict the priorities of the developmental state, to create space for the bureaucrats to rule effectively, not acceding to political adversaries; and a market-conforming method of state intervention through cooperation between the state and private enterprise under administrative guidance (Johnson, 1982: 315–20). First, the longstanding tradition of industrial policy, the Five-Year Economic Development Plan (FEDP), ended after 31 years of service, beginning in 1962. Soon after President Kim came into office in 1993, he replaced the seventh FEDP with the pro-market New Five-Year Plan for the New Economy (NFPNE). The discontinuance of the FEDP denoted the end of tight control over industrial policies by the elite bureaucracy. Second, the supreme planning authority, the Economic Planning Board (EPB), was abolished. In 1994, the Kim administration merged the EPB with the Ministry of Finance (MOF) to form the Ministry of Finance and Economy (MOFE) in the name of government rationalization. The abolition of the EPB symbolized the discontinuation of the state as the coordinator and director of economic development. Third, the inauguration of President Kim indicated the weakening of authoritarian state power. During the three military administrations since President Park seized power by coup d'état in 1961, the virtual monopoly of political power by the authoritarian state guaranteed space for the elite bureaucracy to carry out economic plans. This authoritarian power became significantly weakened by the advent of the Kim's civilian administration. Finally, the overt alliances between the state and *chaebols*, where the former exercised discipline over the latter by imposing certain performance standards and the latter received subsidies, cheap credit, and protection against foreign competition in return (Amsden, 1989), broke down. The Kim administration promoted the phase-out of 'policy loans,' or loans made at a below-market interest rate from state-run banks or state-underwritten commercial banks to finance particular industries or firms, and it also let *chaebols* go bankrupt, invalidating the 'too big to fail' doctrine.

The institutional dismantling of the developmental state accompanied a series of financial liberalizations, but without prudent supervision. In the 1993 NFPNE, the Kim administration resolved to join the OECD by 1996 to enhance Korea's international prestige and competitiveness. Behind the decision were the core state elite represented by the MOF/MOFE, whom President Kim heavily relied on for economic issues because of their great executive capacity and network verified by the thitherto remarkable industrialization of the Korean economy. In fact, high-ranking economic bureaucrats in the MOF/MOFE had already formed the so-called Mofia, a compound word of the MOF and the Mafia, which refers to the robust and formidable network of previous and current MOF/MOFE officials. Despite some misgivings from other state elites and politicians that it was premature to join the OECD (Lim, 1998, pp. 362–363), the MOF/MOFE pushed ahead with the decision. *Chaebols* were supportive since it would help them enter the lucrative markets of the North. Thus, the government accelerated liberalization to finally become an OECD member in December 1996. Unfortunately, the liberalization policy was implemented in a rash manner without careful consideration of economic conditions. Most notably, the Kim administration relaxed restrictions on short-term foreign borrowing by financial institutions while maintaining strict controls on long-term foreign borrowing, and permitted the transformation of existing investment banking (*Tuja-geumyung*) companies into merchant banking (*Jonghap-geumyung*) corporations, non-bank financial institutions that were allowed to engage in foreign exchange transactions (Choi, Jen and Shin, 2000, p. 2; Hahm and Mishkin, 2000, p. 21). This led to the severe and unmanageable imbalance in the maturity structure of borrowing and lending (Chang, 1998, p. 1558). In short, the ill-advised and hasty liberalization caused the breakdown of the integrity of the entire economy in December 1997 (Chang, 1998; Crotty and Lee, 2004; Wade, 1998).

In the aftermath of the 1997 financial crisis, the Korean state took serious steps towards systematic neoliberalization. The state deliberately designed the so-called IMF economic program, if in consultation with the IMF, to bring about the overall neoliberal restructuring of the economy. Under the slogan of 'a parallel development of democracy and a market economy,' the incoming Kim Dae-jung administration, elected in the midst of economic turmoil in December 1997 and inaugurated in February 1998, intended to rectify, settle and expand the neoliberal framework that the preceding Kim Young-sam administration had imprudently introduced under the rubric of *Segyehwa* [translated as 'globalization'], rather than simply responding to the expectations of the IMF (Korea Development Institute, 1999).

Rather than being weeded out from economic policy making, the adept Mofia remained key players in this process. In a situation where there was little disagreement on the systematic deepening of neoliberalization internally as well as externally as a way to show the effort of depoliticization, the ascension of new state elites as an alternative was unfortunately ephemeral as they failed to surmount the existing power of the Mofia. Thus, the Mofia-based old state elite became the driving force behind neoliberal restructuring in the post-crisis era, which significantly affected the character of the neoliberalization of the Korean state.

While the Korean state has shifted from the developmental state model to neoliberalism at the level of macro formal institutions and policies, what it really pursued was a neoliberal *form* rather than the *content* of neoliberalism. It is fair to say the Korean state is no longer a developmental state since it has lost the institutional essence of the developmental state model. Still, it retained the disposition of the old developmental state. In other words, while the transformation of the Korean state formally complied with neoliberal institutional standards to guarantee depoliticization, the internal management of the neoliberal reform followed the practices of the old developmental state, as illustrated in the following section.

The Dual Nature of the Neoliberal Reform of the Bank of Korea

The global spread of central bank independence since the turn of the 1990s is closely associated with the rise of neoliberalism. As neoliberalism pursues the unhindered function of markets from politics and the state, the idea of central bank independence has been embraced and promoted by neoliberals. Polillo and Guillén (2005) find that international coercive, normative, and mimetic pressures of the neoliberal policy paradigm explain the diffusion of central bank independence. Thus, in line with the technocratic ethos of the neoliberal paradigm, a central bank free from political contingencies is expected to pursue fiscal discipline and monetary stability against the alleged ill effects of Keynesian expansionary fiscal policies by preventing the discretionary deficit spending of the state (Polillo and Guillén, 2005, pp. 1767-1769). Maman and Rosenhek (2009) also argue that reinforced central bank independence from political echelons and other state bureaucracies is part of a broad shift from a Keynesian to a neoliberal policy paradigm, where inflation targeting provides central banks with a powerful political tool to legitimize tight monetary policies and strengthens their capacity vis-à-vis the government to conduct autonomous policy.

In Korea the state has carried out two major revisions of the BOK Act under the neoliberal policy paradigm since the 1997 financial crisis. First, upon the outbreak of the crisis, the Korean state immediately promulgated the sixth revision of the BOK Act on December 31 1997 to institutionalize the end of political manipulation of the BOK by the state, thereby providing for the independence of the BOK. The state reduced the role of the BOK exclusively to price stabilization and repealed provisions about the establishment and functions of the Banking Supervisory Authority within the BOK so as to deprive the BOK of control over the banking and credit system. This action was to preclude the BOK from being manipulated by the government that might channel capital to particular industries or firms. The governor of the BOK replaced the Minister of the MOFE as chair of the Monetary Policy Committee (MPC), the highest decision-making authority of the BOK, and the Minister of the MOFE was excluded from the MPC. The number and proportion of government officials or government-recommended members in the MPC was also reduced from six out of nine to two out of seven. Before the sixth revision of the BOK Act, the MPC included five government-recommended members in addition to the Minister of the MOFE, one by the Minister of the MOFE and two by each of the Minister of Agriculture and Forestry and the Minister of Trade, Industry and Energy. After the sixth revision, the MPC included one committee member recommended by the Minister of the MOFE and another by the Financial Supervisory Commission.

In the face of an unprecedented credit card crisis and the insolvency of SK Global, the trading arm of Korea's fourth-largest *chaebol*, SK Group, in 2003, the state carried out the seventh revision of the BOK Act to reinforce the independence of the BOK and reassure foreign and domestic capital about the stability of Korean financial markets. The deputy governor of the BOK began participating in the MPC as an ex officio member with the governor of the BOK, and the BOK began to take charge of overall management and oversight of the payment and settlement system. The range of items for which the BOK should obtain the prior approval of the MOFE for budgeting was reduced from all operating expenses to some managerial expenses such as wages and welfare benefits.

Notwithstanding the aforementioned conspicuous formal changes in the BOK Act, the independence of the BOK remained far from mature. The reforms of the BOK Act created inconspicuous routes of perpetuating the discretionary political influence of the government on the performance of the BOK, while apparently ending direct routes.

While the sixth revision of the BOK Act reduced the number of government-recommended members on the MPC, the MPC began to include committee members recommended by private sector bodies, namely the Korea Chamber of Commerce and Industry, the Korea Federation of Banks, and the Korea Securities Dealers Association, which were subject to the influence of the government due to their long-established relations with it. Even after the seventh revision of the BOK Act, two of the seven MPC members are still recommended by the Korea Chamber of Commerce and Industry and the Korea Federation of Banks through an opaque process of recommendation. A 2008 survey of 200 economic experts about the selection of MPC members suggests that the recommendation and appointment process is arbitrary and not autonomous from external pressures, thus necessitating concrete and transparent procedures (Citizen's Coalition for Economic Justice, 2008).

The governorship of the BOK itself remained short and thus vulnerable to political regime changes. Most advanced economies have made their central bank governorship longer than five years or the term of the President or the Prime Minister in order to secure the consistency of monetary policy and the stability of the financial system. Even when the term of the central bank governor is relatively short, as in England (five years) or the US (four years), repeated appointment is common. In contrast, the term of the governor of the BOK is not simply short, at four years, but the short term made the governorship highly subject to changes in government, though the consecutive appointment is legally allowed once. Among the 23 ex-governors of the BOK, only seven completed their terms and only one was appointed for a second term in 1974. Even after the sixth revision of the BOK Act, none of the governors was appointed again though they now tended to complete their terms.

In a similar vein, the appointment system of the governor of the BOK lacks a practical device to guarantee the political neutrality of the governor. The governor of the Bank of England is required an appointment hearing held by the House of Commons Treasury Committee, and the president of the European Central Bank also is required a hearing by the Committee on Economic and Monetary Affairs of the European Parliament. The chairperson of the Federal Reserve in the US even needs the approval of the Senate to be appointed. In contrast, the governor of the BOK is appointed by the

President only after deliberation in a Cabinet meeting without congressional hearings or the approval of the National Assembly. This appointment system hardly ensures the apolitical selection of the governor and his autonomous performance. Consequently, regime changes likely lead to the selection of a new governor whose orientation is generally compatible with the new administration.

In the actual operation of the BOK, the arbitrary pressure of the government remained serious and often defeated the original monetary policy of the BOK. Though the state was compelled to reinforce the official autonomy of the BOK through the sixth and seventh revisions of the BOK Act, it is considered an open secret that monetary policy, especially interest rate, is still heavily affected by the government's will, which is in turn driven by the Mofia-based old state elite and expressed through informal or secret routes. For instance, in April 2003, Governor Seung Park suddenly overturned the monetary policy stance of the BOK after the President presided over the Economic Coordination Meeting (*Weekly Hankook*, 2003). Before the meeting, then Deputy Prime Minister for Economic Affairs and Minister of the MOFE, Jin-pyo Kim, had insisted on active fiscal stimulus through interest rate cuts while the BOK objected to such stimulus monetary policy. Just a day after the meeting, however, the governor suddenly shifted from the position that he himself had conveyed two weeks before, and stated that the BOK would reconsider the monetary policy. Not surprisingly, the following month the BOK lowered the interest rate by 0.25 percent. In June 2003, Senior Deputy Governor Seong-tae Lee exposed that even after the 1997 revision of the BOK Act the government had pressured the governor of the BOK and the MPC members in adjusting interest rates (*Yonhap News*, 2003). More overtly, in October 2004, then Deputy Prime Minister for Economic Affairs and Minister of the MOFE, Hun-jae Lee, put direct pressure on an interest rate cut in the National Assembly audit on the MOFE and even said he would make 'necessary' remarks on the interest rate when 'needed' and with 'proper' intensity and expect the BOK as well as the MPC to take them into full consideration (*PRESSian*, 2004). The following month the BOK cut the interest rate by 0.25 percent. Under the current Lee administration (2008 ~), allegedly the most neoliberal regime in Korean history, the government has continued to put substantial pressure on the interest rate adjustment of the BOK in accordance with its high exchange rate policy for the sake of export promotion. In the National Assembly audit on the Ministry of Strategy and Finance (MOSF, formerly MOFE) in October 2010, the lawmakers of both the ruling and the opposition parties criticized Minister Jeung-hyun Yoon for pressuring the BOK to keep the interest rate low as well as for manipulating the exchange rate policy (*Yonhap News*, 2010).

As a way to exert political influence on the monetary policy of the BOK, the government recently began to utilize the right of the Vice Minister of the MOSF to attend and speak at the meetings of the MPC. In January 2010, the MOSF under Minister Jeung-hyun Yoon exercised the right for the first time since June 1999, though the Vice Minister did not have the vote. This right originated in the first revision of the BOK Act in 1962, where the Vice Minister of the MOF was given a right to attend the meetings of the MPC. However, it was not important since the Minister of the MOF was already exerting a strong influence as an ex officio member and chairperson of the MPC. Through the sixth revision of the BOK Act, it was modified to include a right to speak as well as attend. This change turned out to be important, albeit without drawing public attention. While the chairpersonship of the MPC was transferred from the Minister of the MOFE to the governor of the BOK and the Minister of the MOFE was ruled out of the MPC, the government now had the inconspicuous channel through which it would be able to make its voice heard in monetary policy making. Still, the government refrained from using this right until recently and avoided unfavourable controversy about government intervention in monetary policy. It exercised the right only four times from 1998 to 1999, and these occasions were not for discussing the direction of monetary policy (*Yonhap News*, 2010). Since January 2010, however, the Vice Minister of the MOSF has been present in the meetings of the MPC to represent the stance of the government in monetary policy, especially interest rate policy. In September 2010, the IMF advised the Korean government to reconsider the exertion of the right, but Minister Jeung-hyun Yoon rejected the suggestion (*Yonhap News*, 2010).

Thus, monetary policy in Korea still derives not so much from balanced coordination between the BOK and the government as from the daunting and discretionary pressure of the government on the BOK. The BOK has in reality remained subordinate to the government, and its actions remained not proactive but passive and defensive.

Fetters of the Bygone Development State on the State Elite

Why did the Korean state revise the BOK Act in order to institutionalize neoliberalism at the particular juncture, and why did the Korean state fail to run the neoliberal institutions in accordance with neoliberal principles? In the immediate post-crisis period, the incoming Kim Dae-jung administration felt compelled to differentiate itself from the previous Kim Young-sam administration that had been held responsible for the financial crisis. In the context of domestic demands for economic reform and the neoliberalizing international pressure, the systematic implementation of neoliberal restrucutring was a reasonable way for the incoming administration to achieve public support as well as to recover international creditworthiness. The state elite in the new administration tried to rectify the imprudent liberalization of the previous administration while reinforcing the existing neoliberal policy line that was already prevalent within the state bureaucracy. This strategy was not true only of the Kim Dae-jung administration but of the subsequent administrations even after Korea 'graduated' from the IMF bailout regime. Each administration tried to revamp key institutions responsible for financial instability to meet both the domestic and international expectations.

However, the core state elite represented by the Mofia did not appear to have any genuine intention to facilitate fundamental neoliberal transformation. The Mofia-based old state elite survived the financial crisis and political regime changes through the unassailable network that they had established during and even after the period of the developmental state. While they realized that the old developmental state had already outlived its usefulness, their mindsets tended to remain stuck in the old tradition. They still considered the BOK simply as a tool to support state policy, and found it hard to allow the BOK to follow an economic logic free of political intervention, as discussed in the previous section. The non-Mofia new state elite who were appointed as an alternative to the Mofia at the beginning of incoming administrations might have held different economic beliefs and stances from the existing Mofia-based state elite, though both apparently agreed on the systematic neoliberalization at a formal macro level. However, the new state elite could hardly run the economy without encountering the longstanding power of the Mofia, and they were finally either replaced with the Mofia-based old state elite or became part of the network. In short, the Mofia-based existing state elite did not give up their vested rights but continued to influence the overall operation of the economy, albeit not as absolutely as before, despite being aware of the need for a new political and economic arrangement. They chose to install new institutions and policies but to retain the practices of the old developmental state. As a result, the formal installation of neoliberal institutions did not entail the fundamental transformation of the nature of the state, thus increasing the gap between the character of the state and that of the new system in which it operated.

The persistent influence of the Mofia-based state elite was an outcome of Korea's unique circumstances in terms of the features of the country's prior economic system, the temporal context of neoliberalization, and the domestic and international leverage of the state. Korea had the most successful developmental state in the world for decades as it transformed the economy from one of the poorest into a semi-advanced country. This very state was recently compelled to promote a dramatic but systematic transition towards a neoliberal economic system within the framework of a politically democratic regime and in the wake of acute economic crisis. Still, compared to many states in the global South, the Korean state possessed a fair degree of influence in the world economy and substantial power relative to domestic social forces, which enabled the state to cleverly deal with international and domestic pressure. These particular historical and political-economic circumstances were conducive to the rise of the Mofia and their survival and adaptation to the changing national and world economy. The Mofia-based state elite in Korea took advantage of the prior system, which provided them with considerable leverage in pursuing the double-faced neoliberal reforms, and operated in a new neoliberal setting without being truly neoliberal.

Conclusion

The neoliberalization of Korea in the post-crisis era has produced an incongruous combination of aggressive formal neoliberalization at a macro level and persistent practices of the prior developmental state at a micro level. This was an extension of the institutional demise of the developmental state but, at the same time, of the lingering disposition of the old developmental state in Korea. Of course, neoliberalism may be moulded or contested by any state in the world. However, due to the particular political-economic circumstances of the Korean state, the duality of neoliberalization in Korea is distinct from the ineffective activism of unsuccessful states in developing economies as well as from the occasional or partial intervention of established neoliberal states in specific sectors in advanced economies. The revisions of the BOK Act showed state efforts to officially insulate economic activities from political manipulation and secure its proper operation in accordance with market rules, that is to say depoliticization based on economic constitutionalism. However, when it comes to its underlying management, the reforms reproduced the legacy of the old developmental state, or the state as a politicized, discretionary intervener. This phenomenon is not limited to the BOK reform but true of the wider neoliberalization campaign by the Korean state. For instance, the operation of the Financial Supervisory Commission/ Financial Supervisory Service and legal investigation into the financial and political scandals of *chaebols* in the post-crisis era have demonstrated the dual nature of the financial regulatory reform and the corporate reform.

This does not necessarily mean the revival of the developmental state in Korea. The current Korean state did not restore the high-handed structural institutions that had qualified the Korean state as developmental state in accordance with Johnson's (1982) four institutional criteria. The state has broken away from a developmental state in that it is re-equipped with a neoliberal framework. However, it can hardly be regarded as a neoliberal state, either. The reinforcement of depoliticization on one level has progressed in tandem with the persistence of politicization on the other level. Behind such dualistic process of Korea's neoliberalization were the old state elite centring on the Mofia, who operated under the legacy of the developmental state in preserving their power against international and domestic forces.

The renewed understanding of Korea's neoliberalization in this article cautions against the illusion of neoliberalization. Not to speak of the continuing major and integral role of the state in neoliberalization, the state elite may craftily adopt discrepancies between formal neoliberal changes in the institutions of the economy and their actual management. The introduction of new institutions and policies does not guarantee their management in accordance with their prescribed neoliberal ideology. As in the case of Korea's neoliberalization, the adoption of new institutions and policies may be just an attempt of the adept state elite to better manage current difficulties through formal remodelling. Neoliberlization may incur renewed politicization under the mantra of depoliticization.

The foregoing discussion suggests that a state and the domestic system which it introduces and operates in may be of quite different characters, not to speak of the international system. As the Korean case in this article illustrates, a state is an active but often uncommunicative entity that reflects power struggles within and outside it whereas the system may be merely an apparent and general exhibition of the state scheme or interstate influence which sometimes disguises the underlying character of the state. China's post-communist transition, in which the Communist Party introduced and oversaw the operation of a capitalist economy while maintaining a Leninist political structure, may be a plainer example. In the Chinese case, the newly installed system did not camouflage the underlying character of the state as much as in the case of Korea's neoliberalization.

Finally, the re-examination of the Korean case indicates that the state holds significant leverage over the process of its own integration into the world economy. It is true that direct and indirect pressure from international powers may be an important contributor to neoliberal globalization. External economic circumstances such as intensifying international competition may also induce the state to shift to neoliberal globalization. However, the legacies of existing domestic institutions are not easily displaced by newly adopted institutions because the state utilizes the legacies to offset and manipulate the impact of external pressure and to find its own way to integrate its national economy into the world economy.

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