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Financial Transformation in South Korea

The Role of US-Trained Technocrats

ABSTRACT

This paper addresses why and how South Korea's financial system has diverged drastically from the Japanese model since the early 1980s and has turned to the US model, which is often regarded as a more market-oriented financial system. The paper traces the rise of American-trained Korean economists in the Economic Planning Board and their collaboration with other such economists in public and private economic institutes and academia.

KEYWORDS: financial liberalization, diffusion studies, South Korea, developmental state, Economic Planning Board

INTRODUCTION

What facilitates financial liberalization? Financial systems have become more similar across countries in the past three decades.[1] Until the global financial crisis of 2008, banks and securities markets had increasingly significant roles in the economy. High-income countries are likely to have a bigger financial system relative to the real economy than middle- or low-income countries. In particular, securities markets have grown much faster than the banking sector

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1. T. Beck, A. Demirguc-Kunt, and R. Levine, "Financial Institutions and Markets across Countries and over Time: Data and Analysis," Working Paper 4943, World Bank, Washington, DC, 2009.

Asian Survey, Vol. 58, Number 4, pp. 635–659. ISSN 0004-4687, electronic ISSN 1533-838X. DOI: https://doi.org/10.1525/AS.2018.58.4.635.

for the past three decades among the member countries of the Organization for Economic Co-operation and Development (OECD).[2]

South Korea's (hereafter, Korea) is one such remarkable case of rapid financial transformation. No modern banks existed at all in Korea until the end of the nineteenth century.[3] As in other cases of colonial origins of a modern financial system,[4] the Japanese colonial government established various public banks and strengthened their functions in credit allocation and control. Many of these public financial institutions continued to operate even after liberation from Japanese colonial rule, and Korea consolidated a government-controlled financial system during the 1960s and 1970s.[5]

But the Korean financial system started to diverge from the Japanese-style bank-centered financial system in the early 1980s,[6] and its financial structure has become more like that of most advanced economies.[7] For example, bank credit was less than 10% of GDP in the early 1960s, but it increased to 135% of GDP by 2014.[8] Meanwhile, securities markets were almost nonexistent until the early 1980s, but they have grown exponentially since the early 1990s. The size of securities markets has more than tripled, exceeding 150% of GDP starting in 2009 (Figure 1).[9]

2. See e.g. Asli Demirguc-Kunt, Erik Feyen, and Ross Levine, "Optimal Financial Structures and Development: The Evolving Importance of Banks and Markets," in *Financial Structure and Economic Development* (Washington, DC: World Bank, 2011); Martin Čihák, Aslı Demirgüç-Kunt, Erik Feyen, and Ross Levine, "Benchmarking Financial Development around the World," Policy Research Working Paper 6175, World Bank, Washington, DC, 2012.

3. Chung You-Iob, *Korea under Siege, 1876–1945: Capital Formation and Economic Transformation* (New York: Oxford University Press, 2006).

4. Svetlana Andrianova, Panicos Demetriades, and Xu Chenggang, "Political Economy Origins of Financial Markets in Europe and Asia," *World Development* 39:5 (2011): 686–99.

5. David C. Cole and Park Yung-Chul, *Financial Development in Korea, 1945–1978* (Cambridge, MA: Harvard University Asia Center, 1983); Roy W. Bahl, Kim Chuk Kyo, and Pak Chong-gi, *Public Finances during the Korean Modernization Process* (Cambridge, MA: Council on East Asian Studies, 1986); Cho Yoon Je and Kim Joon Kyung, *Credit Policies and the Industrialization of Korea* (Seoul: Korea Development Institute, 1997); Chung Young-Iob, *South Korea in the Fast Lane: Economic Development and Capital Formation* (New York: Oxford University Press, 2007).

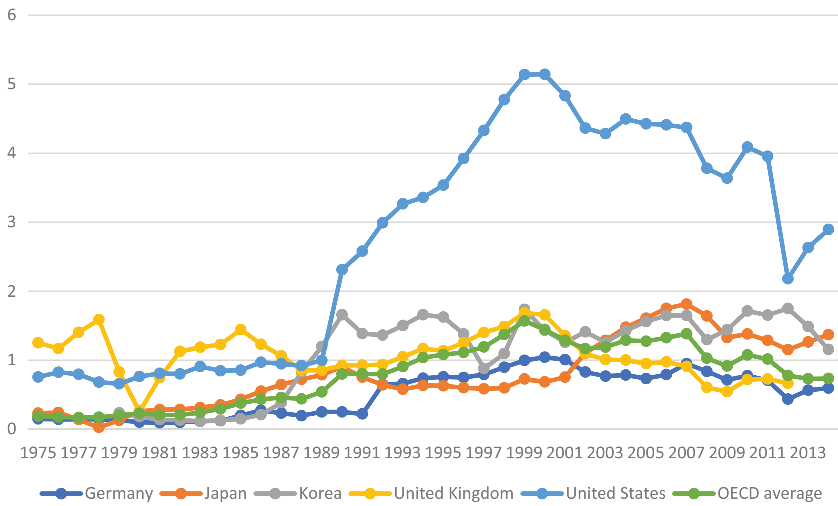
6. A. H. Amsden and Euh Yoon-Dae, "South Korea's 1980s Financial Reforms: Good-Bye Financial Repression (Maybe), Hello New Institutional Restraints," *World Development* 21:3 (1993): 379–90.

7. We can measure the financial structure by comparing the size of the banking sector relative to the securities market, as Asli Demirguc-Kunt, Erik Feyen, and Ross Levine ("Optimal Financial Structures and Development") suggest.

8. Measured by deposit money bank credit to the private sector.

9. Measured by stock market capitalization plus outstanding domestic private debt securities as a percentage of GDP.

FIGURE 1. Financial Structure, Selected High-Income Countries, 1975–2014



SOURCE: World Bank, Global Financial Development Database (June 2017), <http://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>, accessed October 15, 2017.
NOTE: Financial structure is measured by the deposit money bank credit to the private sector as a percentage of GDP divided by stock market capitalization plus outstanding domestic private debt securities as a percentage of GDP.

What then has enabled this swift transformation? Many studies have focused on market pressures, highlighting the growing influence of *chaebols* (business conglomerates)[10] or the structural reform program imposed by the International Monetary Fund (IMF) in late 1997.[11] Both chaebols and the

10. David T. Coe and Kim Se-Jik, eds., *Korean Crisis and Recovery* (Seoul: Korea Institute for International Economic Policy, 2002); Shin Jang-Sup and Chang Ha-Joon, *Restructuring "Korea Inc.": Financial Crisis, Corporate Reform, and Institutional Transition* (New York: Routledge, 2002); C. H. Lee, K. Lee, and K. Lee, "Chaebols, Financial Liberalization and Economic Crisis: Transformation of Quasi-Internal Organization in Korea," *Asian Economic Journal* 16:1 (2002): 17–35; Stephan Haggard, Lim Wonhyuk, and Kim Euysung, *Economic Crisis and Corporate Restructuring in Korea: Reforming the Chaebol* (New York: Cambridge University Press, 2010); Se-Jin Chang, *Financial Crisis and Transformation of Korean Business Groups: The Rise and Fall of Chaebol Business Groups* (New York: Cambridge University Press, 2003).

11. D. Hundt, "A Legitimate Paradox: Neo-liberal Reform and the Return of the State in Korea," *Journal of Development Studies* 41:2 (2005): 242–60; I. Pirie, "The New Korean State," *New Political Economy* 10:1 (2005): 25–42; James Crotty and Lee Kang-kook, "The Effects of Neoliberal 'Reforms' on the Post-crisis Korean Economy," *Review of Radical Political Economics* 38:4 (2006): 669–75; S. J. Lee and T. Han, "The Demise of 'Korea, Inc.': Paradigm Shift in Korea's Developmental State," *Journal of Contemporary Asia* 36:3 (2006): 305–24.

IMF played a pivotal role in financial liberalization, and the financial crisis of 1997 was a turning point. These studies are valuable in understanding the significance of these players and the crisis. But they do not consider another critical point: the role of the economic bureaucracy. Studies that emphasize the growing influence of chaebols have often assumed that the Korean government is basically an anti-market entity. They describe the economic bureaucracy as a core agent of the interventionist state, inheriting its long tradition of market control from the developmental dictatorship period of the 1960s to 1980s.[12] By contrast, those studies that highlight the role of the IMF describe the economic bureaucracy as a reactive entity, passively succumbing to the coercive structural reform conditionality in return for a US$ 58 billion emergency package. Both views treat the Korean economic bureaucracy as an anti-market and passive agent in national economic agenda-setting.

This paper argues for a different view. The Korean economic bureaucracy has played a more important role than chaebols or the IMF in economic liberalization in general, and financial liberalization in particular. Those high-ranking technocrats in the Economic Planning Board (EPB) and the Ministry of Finance (MOF) who were educated and trained in the US—known as American-trained Korean economists (A-TKEs)—have leveraged their positions at the apex of the economic policymaking process by closely collaborating with other A-TKEs in public and private economic institutes and academia. As pioneering scholars on this issue, Alice Amsden and Y. B. Choi highlighted the role of A-TKEs in Korea's economic liberalization, and Chang Ha-Joon briefly mentioned it.[13] But they did not thoroughly investigate how A-TKEs ascended within the economic bureaucracy and how they have constructed an isomorphic policy network structure in which actors do not voice their alternative views in the economic policymaking process for fear of being stigmatized as disloyal to the existing informal social networks.[14]

12. E. M. Kim, *Big Business, Strong State: Collusion and Conflict in South Korean Development, 1960–1990* (Albany: State University of New York Press).

13. A. H. Amsden, "Diffusion of Development: The Late-Industrializing Model and Greater East Asia," *American Economic Review* 81:2 (1991): 282–86; Y. B. Choi, "The Americanization of Economics in Korea," *Journal of the History of Economic Thought* 4:2 (1997): 97–122; Chang Ha Joon, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem Press, 2002).

14. Isomorphism in this article indicates the process of homogenization both in network structure and in the policymaking process. Those actors involving in economic policymaking increasingly share similar social backgrounds, primarily resulting from the same school ties and similar professional training, and they have adapted to this homogeneous network environment by

These technocrats initiated financial liberalization in the early 1980s and have pushed it as a post-catch-up stage of Korea's economic development strategy since the early 1990s. They have voluntarily emulated foreign "best practices" and policies—not only to acquire advanced technical knowledge, but also to legitimize their domestically unpopular liberalization measures by citing foreign authority. In the Korean catch-up development model, such voluntary emulation was a collective effort to overcome an uncertain development trajectory by dogmatically following the advanced-economy model.

The rest of the article is organized as follows. The first main section explores the historical origins and evolution of A-TKEs in government economic agencies, especially the EPB, and their relations with top leadership and other A-TKEs in government-sponsored economic research institutes and academia. The second main section analyzes three major cases that were key in transforming the Korean financial system into a more neoliberal one, in the initial phase of financial liberalization in the early 1980s and 1990s. Finally, some lessons that the Korean experience provides are discussed.

THE RISE OF A-TKES IN ECONOMIC POLICYMAKING

Origins and Evolution

Few channels or opportunities existed for Korean people to study in foreign countries from liberation in 1945 to the end of the Korean War (1950–53). This changed when the US Agency for International Development (USAID), the World Bank, and the IMF began to provide training opportunities in the US for government economic officials.[15] For example, the USAID technical training program for Korea (1954–June 1962), provided training for 2,148 participants, mainly in the US. Of these, 384 received training in public

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assimilating their varying policy ideas or preferences. As a result, no significantly dissenting policy ideas or tools are suggested or discussed in the policymaking process; dogmatic followership to the top-down agenda prevails. Regarding the definition of isomorphism in organizational fields and the three different mechanisms of institutional isomorphism (coercive, mimetic, and normative), see P. J. DiMaggio and W. W. Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review* 48:2 (1983): 147–60.

15. David Cole, *Overseas Training Programs for Korean Government Officials: The Contribution of Overseas Training to Preparing Key Government Officials for Designing and Implementing Important Economic Development Measures in the 1960s* (Seoul: KDI School of Public Policy and Management, 2002).

administration, and half of those were trained in public budgeting and finance administration. Another 56 people were trained in statistics, including census analysis and management.[16] Meanwhile, both the World Bank and the IMF helped government economic officials to get training in specialized development programs in various universities.[17] Between 1956 and 1970, 16 of these officials attended the two-year master's program in economic development at Vanderbilt University in Nashville, Tennessee, USA.[18] Suh Suk Joon, a former Korean deputy prime minister, was one of them.[19]

Still, in the 1950s, few Koreans studied at American institutions of higher education, particularly in pursuit of doctorates. This changed drastically under the Park Chung Hee[20] regime (1961–1979). Park started to recruit A-TKEs actively. He hired economists as cabinet members and key advisers. One of the representative figures of his regime was Nam Duk Woo, who had received his PhD in economics from Oklahoma State University in 1961. In 1969, Park appointed Nam, who was then teaching at Seoul's Sogang University, finance minister. At forty-five, Nam was then the youngest finance minister ever appointed in Korea. In 1974, he was appointed deputy prime minister and minister of the EPB, where he served until 1978. He recruited colleagues from Sogang University such as Lee Seungyoun (PhD, University of Wisconsin–Madison, 1960) and Kim Mahn-je (PhD, University of Missouri–Kansas City, 1963), who became the first director of the Korea Development Institute (KDI).[21]

Park appointed these economists to top positions in economic policymaking (e.g., finance minister, vice deputy prime minister, minister of the EPB), to chairs in various economy-related committees, or as directors of economic bureaus. They were younger than most of the other high-ranking government officials of the time. This caused frustration among senior bureaucrats,

16. Ibid.: 7.

17. Ibid.: 12. Kim Yung-Hwan, who was appointed senior secretary to the president in 1973 and minister of finance from 1974 to 1978, had participated in the IMF training course in 1961.

18. Cole, *Overseas Training Programs*, Appendix A, 143–45.

19. He entered the government in 1959 and joined the EPB in 1962. He participated in the Vanderbilt program from 1963 to 1965. He was appointed minister of the EPB in March 1983.

20. This paper generally uses Korean name order.

21. *Maeil Business Newspaper*, January 11, 1993: 11. The A-TKEs recruited by Nam Duck Woo were called the Sogang School. This was not because of a particular theoretical orientation (like the Chicago School) but because they had literally gone to the same school (*Maeil Business Newspaper*, March 25, 1993: 4).

particularly those who had been recruited through a special examination on fiscal and economic issues for senior civil servants.[22] As a result, ambitious young bureaucrats were motivated to pursue doctorates in economics in the US through a long-term study-abroad program.[23]

Park tried to control every important economic decision by centralizing the policymaking structure. He strengthened the functions of the Presidential Economic Secretariat and organized the economic bureaucracy hierarchically. This gave preeminent power and status to the EPB, created in 1961, which became the heart of the Korean economic bureaucracy. It orchestrated macroeconomic policies and coordinated the economic policymaking process. There were various interministerial mechanisms for policy coordination and conflict mediation, but the ultimate power in such matters belonged to the minister of the EPB. The minister was also deputy prime minister, and he was empowered to determine all major macroeconomic policies. This made swift economic policymaking possible.[24]

Nonetheless, Park Chung Hee did not delegate much with respect to critical decision-making, such as the launch of the Heavy Chemical Industrialization policy and emergency presidential decrees related to the economy.[25] These decisions were mostly drafted and implemented through his core staff rather than from within the formal economic policymaking structure. Thus, most A-TKEs served as window dressing to legitimize interventionist government policies, and their role in economic liberalization remained minimal.

But the delegation of economic decision-making changed in the 1980s. During Chun Doo Hwan's administration (1980–87), Chun often delegated it to people in the EPB and government-sponsored research institutes who were US-trained and had been recruited from universities. With power delegated by Chun, they initiated various financial liberalization policies, such as loosening regulations on the banking sector, encouraging

22. *Maeil Business Newspaper*, April 12, 1993: 17

23. *Maeil Business Newspaper*, April 26, 1993: 17.

24. Han Taehwan, *A Comparison of Industrial Policies between Japan and Korea: The Roles of MITI and EPB in Heavy and Automobile Industries Promotion*, PhD dissertation, University of Hawaii, 1998; Choi Byung-sun, *Economic Policymaking in Korea: Institutional Analysis of Economic Policy Changes in the 1970s and 1980s* (Seoul: Chomyung Press, 1991).

25. Kim Hyung-A, *Korea's Development under Park Chung Hee* (New York: RoutledgeCurzon, 2004).

the development of the nonbanking sector, and conducting reforms in foreign exchange.[26]

The growing role of A-TKEs, particularly those in the EPB, gave them more monopolistic power in economic policymaking because of the autocratic nature of the political regime. The administrations of Park Chung Hee and Chun Doo Hwan were dictatorial. The president controlled all three branches of the government, so there were no strong veto points or players. Park did not often allow technocrats to decide critical economic policies: he maintained direct control through the EPB and the Presidential Secretariat. But Chun delegated considerable economic decision-making power to technocrats. Because of this, A-TKEs from the EPB were empowered to initiate economic and financial liberalization. We will review this in the first case analysis in a later section.

Foreign Education and Training: The Study-Abroad Program

Crucial to the growing number of A-TKEs in the government was the study-abroad program, which was introduced in 1977. Both long-term and short-term programs were developed. Bureaucrats selected for long-term programs could study abroad for two years, usually in pursuit of master's degrees; short-term programs (usually less than a year) were conducted in affiliated government agencies, international organizations, and occasionally at research institutes.

The study-abroad program was an important way for those who passed the higher civil servant examinations to get master's or doctoral degrees from foreign countries. The government sent 58 officials for long-term study abroad in 1977–78 (Table 1). This number increased gradually during the 1980s. Over 100 were sent in 1989, over 200 in 1994, and over 300 in 2003. Between 1977 and 2010, the Korean government dispatched 6,588 officials to foreign countries through its study-abroad program. Of these, 54.6% studied in the US (over 65% in the US and Britain combined). In contrast, only 8.8% and 2.5% studied in Japan and Germany, respectively. The number of officials in short-term programs was even larger, peaking at over 1,700 in 2003. For comparison, Japan sent only 30 officials a year to foreign countries for study.

This growing number of study-abroad participants, particularly those in the long-term program, had significant implications. Officials in economy-related

26. Kim Joong-woong, *Economic Development and Financial Liberalization in Korea: Policy Reforms and Future Prospects* (Seoul: Korea Development Institute, 1985); Amsden and Euh, "South Korea's 1980s Financial Reforms."

TABLE 1. Destinations of the Long-Term Study-Abroad Program, 1977–2010

	US	*UK*	*Japan*	*Germany*	*France*	*China*	*Others*	*Total*	*US (%)*
1977–2001[a]	1858	301	345	109	122	183	350	3268	56.9%
2002	169	27	22	5	6	15	42	286	59.1%
2003	188	36	21	5	6	10	50	316	59.5%
2004	172	30	21	5	6	18	41	293	58.7%
2005	161	35	20	3	7	23	43	292	55.1%
2006	158	32	19	2	8	22	61	302	52.3%
2007	174	44	26	7	11	27	59	348	50.0%
2008	135	46	20	6	7	24	69	307	44.0%
2009	138	45	22	5	5	23	70	308	44.8%
2010	120	40	21	6	4	21	97	309	38.8%
Total	3273 (54.3)	636 (10.5)	537 (8.9)	153 (2.5)	182 (3.0)	366 (6.1)	882 (14.6)	6029 (100)	54.3%

[a]Annual data are not available for this period.
SOURCE: National Assembly, Supervisory Documents on the Government (2010).

posts who aspired to top positions often extended their study in foreign countries to get a doctoral degree in economics. Indeed, many top-ranking officials above the director level in economic bureaus obtained economics PhDs from the US; such a distinction led to more favorable promotions.[27] In particular, officials in the EPB had more opportunities than officials in other ministries to participate in the study-abroad program and other programs for foreign training.[28] The number of A-TKEs in the EPB grew much faster, peaking when the EPB was integrated with the MOF in 1993. The increased training of government officials was paralleled by an increasing intellectual influence and isomorphic change in the intellectual community in academia.

A-TKEs in Government Research Institutes

Government-sponsored economic research institutes are another place to see the growing influence of A-TKEs in economic policymaking. The first such

27. A newspaper in the early 1980s already had already reported that it was a widespread tendency, like a syndrome, among economic bureaucrats to pursue economics PhDs in the US (*Dong-A Ilbo*, February 8, 1984).

28. Choi Byung-sun, *Economic Policymaking in Korea*; *Dong-A Ilbo*, April 1, 1989: 7; *Maeil Daily Economic*, April 12/19, 1991: 17.

institute was the KDI, established in 1971. USAID suggested establishing an economic research institute as early as 1960, but it was concretized in April 1970 when the USAID director wrote to the deputy prime minister suggesting the establishment of a joint working committee to review and update the proposal.[29] USAID contributed US$ 1.67 million for the establishment of the KDI,[30] and with these funds, the first director, Kim Mahn-je, recruited 12 Koreans with economics PhDs from the US.[31] In fact, all 43 senior researchers recruited up to 1978 had received their economics PhDs in the US.[32] The KDI played a critical role in establishing the government's economic policies, such as the third Five-Year Economic Plan (1972–76). It was recognized as the EPB's think tank, and it maintained a close relationship with the EPB when drafting liberalizing economic policies.

Following the KDI, the Korea Institute for Industrial Economics and Trade (KIET) was established in 1976. Initially it was viewed as an organization for conducting research on Middle Eastern economies. The KIET also attracted scholars with foreign PhDs in economics. Unlike the KDI, the KIET was often regarded as a think tank for the Ministry of Commerce and Industry (MCI). More importantly, researchers in the KDI and the KIET played a key role in linking A-TKEs in academia with government policymakers. Indeed, the researchers initially recruited to the KDI and the KIET in the 1970s eventually moved to prestigious university positions and dominated academia as well.[33] A-TKEs who worked at the KDI and the KIET were linked with A-TKEs in academia through various informal social networks, particularly college ties. More than half of the A-TKEs received their undergraduate training from the three most prestigious universities: Seoul National University, Yonsei University, and Korea University.

29. US Department of State, "The Korea Development Institute Project" (Project No. 489-15-820-674), unclassified document, October 13, 1970. I am thankful to Dr. David Cole for sharing this valuable document with me.

30. Ibid.: 2.

31. They were Koo Bon-ho, Kim Dae-young, Kim Young-bong, Kim Wan-soon, Kim Jeok-kyo, Song Byung-ank, Song Heeyoun, Lee Kyu-sik, Nam Woo-hyun, Park Jong-ki, Choo Hak-jung, and Hong Wontak. For more details, see David C. Cole, *Lucky Me: Engaging a World of Opportunities and Challenges* (CreateSpace, 2014): 218–33.

32. Cole, *Overseas Training Programs*, Appendix B, 146–49.

33. For instance, the original researchers recruited by the KDI, including Hong Wontak, Song Byung-nak, and Lee Cheonpyo, eventually moved to the economics department of Seoul National University.

(Those who attended Seoul National University outnumbered those from the other two combined.[34])

Such government-sponsored economic research institutes have proliferated since the early 1980s, and there are almost as many private economic research institutes, mostly established by chaebols. Samsung, one of the largest chaebols, established its institute in 1982. Emulating Samsung, other major chaebols such as Hyundai, SK, Daewoo, Hanwha, and others started to establish their own economic research institutes, also primarily composed of A-TKEs. A-TKEs in government-sponsored institutes and private institutes cooperated closely—partly to gather intelligence and partly to satisfy the demands of various interest groups.

For example, as of 2010, under the National Research Council for Economics, Humanities and Social Sciences (NRCS), established in 1999, there were 23 affiliated research institutes. As of May 2010, 1,280 researchers with PhDs worked in those institutes. Approximately 40% of those had received their degrees from US universities. However, in the eight institutes that have direct influence on economic policymaking, the percentage of US PhDs was much higher than in the non-economy-related institutes: 60.1% versus 28.4%. And in core economic policymaking institutes (e.g., the KDI, the Korea Institute of Public Finance, and the Korea Energy Economics Institute), the percentage of US PhDs was significantly higher than that in the other institutes (Table 2).

A-TKEs in Academia

In the 1960s, only a few Koreans received PhDs in economics at US universities, but this began to change in the early 1970s. In particular, the number of A-TKEs increased greatly in the 1980s. According to an analysis of the registered members of the Korean Economics Society in 1993, 1,825 members had PhDs, and 1,001 of them were foreign trained. Of those foreign-trained economists, 79% (796) received their training in the US.[35]

This trend has increased (Table 3). Because a PhD from a US university was considered the most prestigious, people with US doctorates tended to secure jobs at the most prestigious universities. For instance, as of fall 2011,

34. Alumni ties of the Economics Department and the Business School of Seoul National University were one of those representative cases. *Maeil Business Newspaper*, March 25, 1983: 4.

35. Choi, "Americanization of Economics in Korea."

TABLE 2. Doctorate Researchers of the National Research Council for Economics, Humanities and Social Sciences (as of May 2010)

Institute	*Subtotal*	*Domestic doctorates*	*Foreign doctorates*				*Percentage of US doctorates*
			US	*Japan*	*Europe*	*Others*	
Economics-related							
Subtotal	461	133	277	16	25	10	60.1%
Korea Institute of Public Finance	32	1	30	1	0	0	93.8%
Korea Development Institute	102	18	80	0	4	0	78.4%
Korea Information Society Development Institute	50	9	38	0	3	0	76.0%
Korea Institute for International Economic Policy	44	9	24	3	5	3	54.5%
Korea Energy Economics Institute	47	12	30	0	1	4	63.8%
Korea Rural Economic Institute	72	28	32	8	2	2	44.4%
Korea Institute for Industrial Economics & Trade	74	36	29	3	5	1	39.2%
Korea Labor Institute	40	20	14	1	5	0	35.0%
Non-economics-related							
Subtotal	819	466	233	36	71	13	28.4%
Korea Institute of Public Administration	34	13	15	0	5	1	61.8%
Korea Institute for Health and Social Affairs	52	22	23	1	6	0	57.7%
Science and Technology Policy Institute	48	30	13	0	4	1	37.5%
Others[1]	685	401	182	35	56	11	26.6%
Total	1,280	599	510	52	96	23	39.8%

[1]Some of the other institutes include the Korea Transport Institute, the Korean Educational Development Institute, and the Korea Institute for National Unification.
SOURCE: National Assembly, Supervisory Documents on the Government.

there were 204 tenure-track and tenured faculty members in the economics departments of the 10 major universities located in Seoul.[36] Of these, 188 (91.7%) received their PhDs in the US. Only six had received their doctoral

36. The 10 major universities are Seoul National, Korea, Yonsei, Sogang, Sungkyunkwan, Ewha Womans, Hanyang, Kyunghee, Hankuk University of Foreign Studies, and Chungang.

TABLE 3. Historical Trend in American-Trained Korean Economists, 1951–2009

	US doctorates in economics (A)[a]	*Korean doctorates in economics in the US (B)*[b]	*Korean foreign doctorates in economics (C)*	*Korean doctorates in economics (%) (A/B)*	*US doctorates in economics (%) (C/A)*	*Doctorates in economics from Japan*
1951–60	1,192	–	–	–		–
1961–70	2,505	3	8	–	37.5%	2
1971–75	3,963	26	32	0.66%	81.3%	2
1976–80	3,616	41	54	1.13%	75.9%	1
1981–85	3,616	66	87	1.83%	75.9%	4
1986–90	3,942	168	205	4.26%	81.5%	6
1991–95	4,326	218	294	5.04%	73.5%	14
1996–2000	4,473	136	216	3.04%	61.6%	20
2001–05	4,335	140	225	3.23%	56.0%	32
2006–09	3,911	125	164	3.20%	61.6%	17
Total	35,879	924	1285	2.57%	71.9%	98

SOURCE: National Center for Education Statistics and Korea National Research Foundation, Foreign Doctorate Registration Statistics.

[a]National Center for Education Statistics, Digest of Education Statistics 2010, Table 329, <http://nces.ed.gov/programs/digest/d10/tables/dt10_329.asp>.

[b]Korea National Research Foundation, Foreign Doctorate Registration Statistics, <https://dr.nrf.re.kr/indexEN>. Because it is based on voluntary registration and the collection of information on doctorates officially begun only in 1982, a significant amount of information might be missing.

degrees from Korean universities; 11 others had studied in other countries (eight in Britain, one in Germany, one in Japan, and one in Canada).

A teaching post in an elite university opens up many opportunities in business and government as a consultant, cabinet member or even prime minister.[37] The A-TKEs employed at prestigious universities in Seoul have more opportunities to get involved in actual economic policymaking. Sometimes this is direct (by being recruited by the government for top positions), but more often it is indirect, by providing expert opinions through various formal and informal advisory channels. The rise of A-TKEs in academia, and in government and government-sponsored research institutes, created and consolidated the economic policy community.[38]

37. Choi, "Americanization of Economics in Korea."

38. Not only in Korea. US economics has greatly influenced the field in both developed and developing countries since 1945. For more detailed discussion of various international cases,

THREE CRITICAL MOMENTS IN FINANCIAL LIBERALIZATION

The Take-Off Phase in the Early 1980s

It is well known that Korea started to liberalize its financial system in the early 1980s. However, who or which group actually set the policy direction for financial liberalization has not been the subject of much analysis. Some prior studies attributed the change to increasing external pressures, particularly from the US, as Korea chronically accumulated trade surpluses. Nor can we dismiss the growing external pressure to open domestic markets, which was particularly targeted at trade liberalization. But the primary cause, argued here, was the growing influence of A-TKEs in the EPB and in government-sponsored economic research institutes such as the KDI and the KIET.

In the 1960s and 1970s, the government intervened in capital mobilization and credit allocation. In particular, all commercial banks were nationalized in 1961, and the government intervened in loan allocations to channel funds to strategic industrial sectors and firms. As part of its economic policy, the government made various kinds of loans, with particularly low interest rates for export-related industrial sectors and firms. Indeed, the government's control of bank loans was one of the most important ways of controlling the chaebols, because capital markets had not been developed yet. The MOF was officially in charge of controlling interest rates and policy loans; thus, it was hesitant to denationalize commercial banks, deregulate interest rates, or loosen other regulations on bank loan provisions. However, some people in the EPB, mostly A-TKEs, insisted that promoting domestic and foreign competition was essential for upgrading the economic system, and that therefore anti-competitive institutional arrangements should be eliminated. Thus, there was an entrenched set of conflicting interests between the MOF and the EPB regarding financial liberalization when the interim military government was established in 1980.

The A-TKEs in the EPB and other government-sponsored economic research institutes (particularly the KDI) now took some initiative, using power delegated by the leader. When Chun Doo Hwan took power in 1980, the interim military government established a Special Committee for National Security Measures, which had various economic subcommittees.

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see A. W. Coats, *The Post-1945 Internationalization of Economics* (Durham, NC: Duke University Press, 1997).

The members of these subcommittees were primarily middle-level bureaucrats, liberal academics, and researchers from government-sponsored research institutes (mostly KDI and KIET). During the power transition, they set the overall policy direction for economic liberalization in general and financial liberalization in particular.

The Subcommittee for Economic and Scientific Affairs, which was chaired by Kim Jae-ik, played a pivotal role in financial liberalization.[39] Kim earned his PhD in economics from Stanford University in 1973. He started his public career as staff secretary to Deputy Prime Minister Nam Duck Woo (September 1972–December 1978) and served in the EPB before he was named chair of the subcommittee. After the Chun Doo Hwan administration was inaugurated (in September 1980), he was appointed the first presidential economic secretary. Various sources confirm that he had the almost absolute trust of Chun Doo Hwan, who gave him decision-making power on economic issues. In a famous anecdote, after appointing him presidential economic secretary, Chun told him, "You are the president regarding the economy."[40]

With this power delegated by the top leader, Kim appointed officials from the EPB (but none from the MOF) to key economic policymaking posts and tried to strengthen the EPB. The MOF was reluctant to endorse various financial liberalization measures, such as denationalizing commercial banks or deregulating interest rate controls. At the same time, the MCI strongly resisted import liberalization measures. As a result, Kim pushed through the creation of the Industrial Policy Deliberation Council (IPDC) in 1981. The IPDC would be under the control of the deputy prime minister of the EPB. Through the creation of the IPDC, the EPB acquired the power to request changes in policies initiated by the MOF or the MCI when the EPB considered them "not to be in accord with its overall industrial policy objectives."[41] Indeed, the EPB used the IPDC as the vehicle through which it could make industrial policy; in effect, it set the timetable for economic liberalization.

In 1982, A-TKEs from the EPB led an organizational reshuffling in the MOF and the EPB. High-ranking officials from the EPB were appointed to equivalent positions in the MOF and then tried to move the MOF to a position supporting rapid financial liberalization. After this unprecedented

39. Choi, *Economic Policymaking in Korea*: 141–95.
40. *Maeil Business Newspaper*, April 19, 1993: 17.
41. Choi, *Economic Policymaking in Korea*: 180.

personnel swap, commercial banks were denationalized in 1982 and 1983, and interest rate controls were rapidly lifted. This pattern of reshuffling was repeated during Kim Young Sam's administration (1993–97). The EPB drove financial liberalization further by winning over MOF officials. We will discuss this in the next case.

Thus, the individuals who led the financial liberalization were A-TKEs, particularly those connected to Kim Jae-ik. For example, between 1980 and 1984, the prime minister was Nam Duck Woo, who was Kim Jae-ik's mentor; one deputy prime minister was Shin Byong Hyon (PhD, American University, 1953); another was Suh Suk Joon, who was Kim Jae-ik's college classmate; the minister of the MOF, Kang Kyung Sik, was Kim Jae-ik's long-time colleague at the EPB; and the minister of commerce and industry was Kim Ki Hwan (PhD, UC Berkeley, 1971). Kim Mahn-je was Kim Ki Hwan's predecessor at KDI from 1971 to 1982 and became minister of finance in 1982 and deputy prime minister of the EPB later on. All of these men were A-TKEs and had strong connections to the EPB, and they interchanged their key posts repeatedly. With power delegated by the top leader, they initiated policy changes toward economic liberalization in general and financial liberalization in particular.

Capital Account Liberalization and OECD Membership

Poorly managed sequencing of capital account liberalization has often been pointed to as part of a series of regulatory failures by Korean financial authorities before the financial crisis of 1997. How the increasing number of A-TKEs in the EPB greatly contributed to the rash capital account liberalization prior to the crisis is an important aspect that has not been discussed much in previous scholarly work.

In 1993, when a civilian government replaced the last vestiges of the 30-year military dictatorship, one of the results was an acceleration of financial liberalization. Kim Young Sam's administration had a political mandate to perform better than the dictatorial regimes of the past. After the inauguration of the new government, popular support for the president topped 90%. Under the circumstances, the new administration announced a five-year New Economic Development Plan in May 1993, which included a rapid capital account liberalization plan. At the same time, it was pressured in the name of democratization to dismantle the institutional legacy of the past military dictatorship. The EPB was a political symbol of the past "developmental dictatorship," as it played a pivotal role in economic planning and government intervention in the economy. President Kim wanted to abolish it. But he was well aware that EPB officials are generally the most talented economic technocrats in managing macroeconomic issues. President Kim assigned both tasks to a civilian economist.

He appointed Park Jae-youn (PhD, Indiana University, 1975), an economics professor at Seoul National University, as his first presidential economic secretary. Park organized a high-level economic task force, entirely composed of A-TKEs from academia and economic research institutes.[42] Given the EPB's preeminence in economic policymaking, the task force aligned itself with the EPB to prepare for the New Economic Development Plan.[43] However, just as in the early 1980s, the MOF was extremely reluctant to back aggressive liberalization measures. MOF bureaucrats believed that financial policies should be drafted within a microeconomic perspective (i.e., gradual, actor-oriented reform was preferable to large-scale institutional reform). They argued that Korean financial institutions were not prepared for rapid deregulation.[44] Under the circumstances, high-ranking officials of the EPB, mostly A-TKEs, called for merging the EPB with the MOF. It was a survival strategy of the EPB to meet the changed political atmosphere of the time. As mentioned, the new democratic government wanted to dismantle the EPB. But EPB officials thought they could maintain its dominance in economic policymaking and circumvent the opposition of MOF officials to rapid financial liberalization by merging the EPB with the MOF. In December 1994 the EPB was officially abolished and integrated into the MOF, which became the Ministry of Finance and Economy (MOFE).

This organizational reshuffling proceeded quickly. It took less than a month from the proclamation of the plan to the actual merger of the two ministries. There were no public debates or discussions.[45] The plan was announced on December 3, 1994, and the bill for the reorganization was passed by the National Assembly on December 23. The Democratic Liberal Party had a majority in the National Assembly, and the party was under

42. *Kyunghyang Shinmun,* August 10, 1998: 15.

43. *Maeil Business Newspaper,* May 29, 1993: 5

44. Interview with former high-ranking officials of the Ministry of Finance, Seoul, August 20, 2015.

45. *Kyunghyang Shinmun,* August 3, 1998: 15.

the complete control of President Kim. Thus, there were virtually no veto players or veto points. Even after the transition to a democratic regime begun in 1987, policymaking remained a top-down, authoritarian process, controlled by the president.

After the creation of the MOFE, former EPB bureaucrats tried to lift foreign-exchange-related regulations. EPB bureaucrats had often accused the MOF of being conservative and even anti-market. By 1993, there were 26 A-TKEs among the high-ranking officials of the EPB, and there were seven A-TKEs in the MOF.[46] They worked with the A-TKEs in the Presidential Economic Secretariat and pushed for speedy financial liberalization measures, particularly concerning capital account liberalization. Notably, five of the six presidential secretaries during the Kim Young Sam administration had been high-ranking officials of the EPB.[47]

In the end, EPB bureaucrats won because they had strong support from the president. From his standpoint, the bureaucrats from the EPB might have been the best option to drive liberalization reforms in general and deregulation of the financial sector in particular. The EPB had no subordinate agencies; the MOF controlled 16 subordinate financial and tax-related agencies. The president might have thought that MOF officials were too captured by subordinate organizations or private financial institutions. He recruited most of the members of his Presidential Economic Secretariats from the EPB, and he used EPB officials against MOF officials—just as the Chun Doo Hwan administration did—to accelerate financial liberalization.

This politically motivated organizational reshuffling and financial deregulation exacerbated regulatory failures. In the course of the EPB–MOF merger, the MOF's Bureau of International Finance was abolished. This is probably because it was traditionally one of the weak bureaus within the MOF, and the pressure to reduce the size of government agencies was strong.[48] But as a result, there was no regulatory authority specifically in charge of monitoring the financial activities of domestic financial institutions in foreign markets. In fact, the foreign currency activities of financial institutions were nearly outside

46. *Maeil Business Newspaper*, April 26, 1993: 17.

47. Those six secretaries, in order of their service, were Park Jae-youn Park, Han Yi-hun, Koo Bon-young, Lee Seok-chae, Kim In-ho, and Kim Young-sup. All of them graduated from the Economics Department of Seoul National University, and except for Jae-youn Park, all of them served in the EPB.

48. *Hankyoreh Shinmun,* December 6, 1994: 5.

government regulation altogether. When Korea was hit by the financial crisis at the end of 1997, two low-level bureaucrats in the MOFE were the only ones in charge of supervising 30 merchant banks.

The political ambitions of President Kim drove the rush for capital account liberalization. The Kim Young Sam administration consistently sought membership in the OECD, an aim that was first mentioned in 1983 in the annual speech of Chun Doo Hwan. Membership was believed to be a symbol of an advanced country. The new administration believed that it would confer not only international legitimacy but also superiority over the dictatorial regimes of the past.

One of the conditions for membership in the OECD was to liberalize capital accounts by complying with two legal codes, the Code of Liberalization of Capital Movements and the Code of Liberalization of Current Invisible Operations, covering cross-border financial services. When the Code of Liberalization of Capital Movements was introduced, in 1961, it did not include deregulation of short-term cross-border capital flows. But in 1989, it was amended to oblige all 25 then-OECD members to deregulate virtually all capital flows. This was fueled by the growing influence of neoliberal economic ideas claiming that more-liberalized financial markets would bring more efficient allocation of financial resources in the global economy. And all prospective members of the OECD had to promise to comply.[49]

President Kim's ambition for OECD membership was so strong that the Korean government committed to move toward full liberalization and not to introduce new restrictions.[50] Economic bureaucrats who participated in the membership negotiation with the OECD had no choice but to accept rapid capital account liberalization in order to achieve membership during President Kim's term.[51] Korea became an OECD member in December 1996, one year before the crisis of 1997.

49. Rawi Abdelal, *Capital Rules: The Construction of Global Finance* (Cambridge, MA: Harvard University Press, 2007).

50. Y. C. Park, W. H. Song, and Y. J. Wang, "Finance and Economic Development in Korea," Working Paper 04–06, Korea Institute for International Economic Policy, 2004.

51. One of the high-ranking bureaucrats who participated in the membership negotiation said that it was one of the most frustrating experiences in his career, as the negotiation team had no choice but to comply with all the conditions requested by the OECD. Interview with a former high-ranking official of the Ministry of Finance, Seoul, December 5, 2002, and August 20, 2010.

Because of this rashness, the sequencing of capital account liberalization was poorly phased.[52] Regulatory authorities treated short-term and long-term foreign borrowing differently. In particular, they applied stricter regulations on long-term borrowing. Firms and banks had to provide more detailed information and obtain permission from regulatory authorities. But short-term borrowing did not require such permission. MOFE officials regarded it as trade-related and therefore did not strictly regulate it. Furthermore, there was no explicit quantity regulation on the short-term borrowing of banks in foreign currencies or from offshore funds. Domestic financial institutions did not have to report financial transactions made by overseas branches. Moreover, the MOFE did not allow domestic companies to borrow directly from foreign financial institutions. They were forced to borrow from domestic banks or overseas branches of domestic financial institutions. Unsurprisingly, banks and overseas branches of domestic financial institutions engaged in short-term borrowing from foreign financial institutions, as long-term foreign borrowing was regulated while short-term foreign borrowing was deregulated. As a result, firms and banks, including merchant banks newly licensed by the Kim administration, operated on a long-term basis with short-term foreign borrowings. This led to a significant discrepancy in the maturity structure of foreign debt.[53]

The IMF Reform Package of 1997 and the Adoption of Global Accounting Standards

In late October 1997, the currency crisis that had begun in Thailand spread to Korea. The exchange rate depreciated suddenly, while usable foreign exchange reserves were rapidly depleted. The Korean government asked for rescue funding from the IMF, and signed a Stand-By Agreement with it on December 5, 1997. In return, the government agreed to adjust macroeconomic policies—monetary, fiscal, and foreign exchange policies—and to carry out structural reforms in the financial, corporate, labor, and public sectors in compliance with the IMF's recommendations.

Overall, this was standard procedure, applied to all countries that asked for emergency funds from the IMF. However, in the Korean case, the

52. Cho Yoon Je, "The Role of Poorly Phased Liberalization in Korea's Financial Crisis," in G. Caprio P. Honohan and J. E. Stiglitz (eds.), *Financial Liberalization: How Far, How Fast?* (Cambridge University Press, 2001): 159–87.

53. Lee Kyu-Sung, *The Korean Financial Crisis of 1997* (Washington, DC: World Bank, 2011).

agreed-upon structural reform package was unusually comprehensive in scope and detail. For instance, during the Asian financial crisis, Indonesia and Thailand also signed Stand-By Agreements with the IMF, but in contrast with Korea, their structural reform packages did not include specific schedules for reforming accounting standards, the labor market, or the tax system. Yet, the IMF and the Korean government even agreed that all relevant financial reform-related bills would be passed in the special session of the National Assembly, which would be held in late December 1997, just three weeks after the signing of the Stand-By Agreement. Indeed, 13 major financial reform bills were passed.[54]

It seems obvious that 13 such bills could not have been drafted in three weeks. Indeed, the plans for structural reform, particularly those for the financial sector, were identical (except for the specified time frame) to those prepared earlier by the MOFE and the KDI. A year before the financial crisis, the Kim Young Sam administration set up the Presidential Committee for Financial Reform, composed of 31 experts from the business, finance, and academic sectors, for the purpose of reforming the financial system. Again, the members of the committee were A-TKEs.[55]

The committee proposed various financial liberalization measures, including consolidating the four financial supervisory authorities into one. Originally, the committee intended to reduce the MOFE's regulatory power and prepared a reform plan to reinforce the power of the Bank of Korea. But the MOFE lobbied the president through the Presidential Economic Secretariat, and the plan was changed to advance the interests of the MOFE. The revised bill was submitted to the National Assembly in August 1997, but it was not passed because of strong resistance from the opposition parties of the time, the National Congress for New Politics and the United Liberal Democrats. Before the crisis, some critical reform bills, such as those revising labor law (1996) and financial supervisory law (1997), could not be passed because of resistance from labor unions and opposition parties that had much at stake in such reforms. But they were passed in the special session in December 1997.

54. Of those 13 bills, some key bills were the Act for Establishing Financial Supervisory Institution, Act Concerning the External Auditing of the Corporation, Act Concerning the Restructuring of Financial Industries, Bank of Korea Act, Bank Act, and Security Exchange Act. S. Haggard, D. Pinkston, and J. Seo, "Reforming Korea Inc.: The Politics of Structural Adjustment under Kim Dae Jung," *Asian Perspective* 23:3 (1999): 201–35.

55. *Kyunghyang Shinmun*, January 21, 1997: 1, 6.

The political situation of the time made it difficult to provide adequate checks against the initiative of the MOFE. There was a presidential election in mid-December 1997, which was during the government's negotiations with the IMF. The incumbent administration of Kim Young Sam was already suffering from various political scandals. It was under severe attack, not only from opposition parties but also from its own party, concerning the responsibility for the crisis. Opposition parties were relatively free from public criticism or anger about accepting the IMF conditionality, but they were not in charge yet. Because this transition period overlapped with the negotiation with the IMF, it enabled the MOFE to take the initiative in reactivating its failed reforms bills through the IMF Stand-By Agreement.

From a historical and institutional-development perspective, this process highlights the growing influence of A-TKEs and how they consolidated power in the 1990s. They already shared the view that quick market-oriented structural reforms would enhance efficiency and upgrade the economic system. Their views had been consolidated into a kind of shared belief that free markets were better for the economy and the society. The IMF program and the transition from one regime to another was a great opportunity to push their reform agenda by skipping political negotiations with domestic political actors or interest groups.

Of the many changes, one critical measure that accelerated capital account liberalization was lifting the ceiling on ownership of foreign investors when purchasing Korean firms or financial institutions. While negotiating the structural reform package with the Korean government in November 1997, the IMF requested an immediate raise of the ceiling on aggregate foreign investment, which at the time was 26% for total foreign ownership and 7% for individual foreign investors. The IMF further requested full access to domestic money market instruments and the domestic corporate bond market.[56] Within a month, the ceiling on shareholding by foreign investors was doubled to over 50%, and it was fully (100%) liberalized in May 1998, only a couple of months into the crisis.

The economic rationale for this change was to induce more foreign investment to alleviate the problem of depleted foreign exchange reserves. However, given that excessive exposure to capital movements, without

56. International Monetary Fund, "Korea: Memorandum on the Economic Program," December 3, 1997, <https://www.imf.org/external/np/loi/120397.htm>, accessed August 3, 2017.

a proper supervisory framework, was one of the factors that led to the crisis, this rapid lifting of the foreign investment ceiling was controversial. Moreover, given that domestic asset prices were devalued because of the depreciated Korean currency, rapidly lifting the ceiling opened the door to foreign "vulture funds" that could buy Korean assets on the cheap. However, there were no serious public or political debates, because neither the public nor the political parties were fully aware of the details.

Another measure that drastically transformed the basic rules of the game for the financial sector was adoption of global "best practices" in banking and accounting standards. Immediately after the crisis, the MOFE requested that all commercial banks submit reports on the soundness of their management as of December 31, 1997. The MOFE proclaimed that it would apply the Basel standards of the Bank for International Settlements (BIS), which were used in advanced economies, particularly those engaged in financial transactions in the global markets. However, the MOFE announced that it would apply the 8% capital adequacy ratio (BIS ratio) to banks whether or not they made international financial transactions. Indeed, local banks had not been engaged in any kind of international financial transactions, but the MOFE applied the same standard to all local banks. More than half of the commercial banks could not meet this abruptly changed rule and either went bankrupt, merged with other banks, or disappeared.

The MOFE also introduced new standards covering a wide range of other issues, including loan classification and provisioning standards and accounting and disclosure standards. The Korean banking sector was already suffering from economic contraction as a result of the crisis and the subsequent tightening of monetary and fiscal policy that was part of the IMF program. To meet the BIS capital adequacy ratio, most banks did not roll over their loans to corporate clients. Banks rushed to withdraw loans from companies, thereby deepening the credit crunch and pushing up interest rates even further. This drove many companies, even those that had been financially sound, into bankruptcy, and thus the banks' capital base worsened further, and more nonperforming loans were issued. It is estimated that more than KRW 93 trillion (US$ 100.7 billion) of nonperforming loans accumulated in the banking sector after the financial crisis of 1997.[57]

57. Kang Myung-koo, "Too Fast to Adjust: The Sequence and Consequences of Bank Restructuring in South Korea, 1998–2006," *Asian Survey* 49:2 (2009): 243–67.

This raises the question of whether it was necessary to apply the 8% capital ratio and stricter accounting and loan classification standards so abruptly, and in the middle of the crisis. The 8% capital ratio was an arbitrary threshold that had been agreed on by banking supervisors in developed countries to secure interbank transactions in the global financial markets. But because of this abrupt rule change, the banking problem and the credit crunch worsened further, and the government had to use more fiscal money for bank bailouts.[58]

CONCLUSION

A small core group of A-TKEs within the high-ranking economic bureaucracy has determined the direction and scope of financial liberalization in Korea; their influence was most critical during periods of exogenous shocks or crises. As a better-prepared core group, they used political or economic crises to push their policy agenda of financial liberalization. The three cases reviewed above, along with Park's economic decision-making style, highlight that the A-TKEs' relationship with the president was critical in shaping the direction and scope of financial liberalization. This was true regardless of the regime.

The left-leaning administrations following the financial crisis of 1997—those of Kim Dae Jung (1998–2003) and Roh Moo Hyun (2003–08)—were left with no choice but to follow the policy changes, set by A-TKEs, for financial liberalization. The dominance of A-TKEs in Korean economic policymaking is not likely to change significantly in the near future; they hold key positions in the government and have an overwhelming presence in academia. However, despite the challenges, creating a more balanced system of economic policymaking, with greater diversity in the actors' ideological and policy preferences, would be beneficial not only for the Korean economy but also for Korean society.

Of course, we should not dismiss the positive contributions of A-TKEs. The Korean financial system has become more transparent, and capital markets have become much bigger. However, whether growing capital markets and higher profits in certain financial sectors have actually brought higher efficiency in the entire economic system—or improvements for the entire society—is a different issue and needs further rigorous empirical research. Korea's rapid financial liberalization has not allowed cautious

58. Ibid.

attention to the spontaneous demand for financial services from various economic actors. It was pushed from the top down, in a coercive way, according to a national development agenda, and the emulation of foreign ideas and policies was easily legitimized in the local socio-political environment. In effect, rapid financial liberalization has aggravated existing imbalances across economic sectors.

Korea's experience provides some lessons for other developing countries that are interested in building a better financial system for economic development. In a catch-up society, building a capable bureaucracy may be one of the essential elements for building a better financial system. The Korean case highlights the significance of political institutions in financial development. At the same time, it shows that what really matters in building a good financial system is not speed but complementarity of the financial system with other economic and social sectors.