FROM DEVELOPMENTAL STATE TO INNOVATIVE INCLUSIVE STATE INSIGHTS FROM KOREA FOR SUSTAINABLE DEVELOPMENT IN TRANSITIONAL ECONOMIES

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Abstract: Since 1945, Korea has been regarded as a representative developmental state that achieved rapid economic growth. However, democratization in 1987 and IMF crisis in 1997 revealed the limitations of the traditional developmental state model. This study analyzes the transition from a developmental state to a post-developmental state using Korea's historical case, emphasizing the importance of fostering a virtuous cycle of inclusiveness and innovation for sustainable development. Through this analysis, the study proposes the concept of an innovative inclusive state as a new model to address the economic and social challenges faced by transitional economies.

Keywords: Developmental State, Post-Developmental State, Innovative Inclusive State, Sustainable Development, Theory of State

Introduction: Theory of state and developmental state

In 2019, Korea celebrated the 100th anniversary of the Provisional Government and the 71st anniversary of its establishment, transitional as an advanced nation. This achievement is unprecedented in world history, marking both industrialization and democratization among late-modernizing countries.

At the time of the government's establishment, Korea's GNP was 12%, with 73% of government revenue coming from U.S. aid. Today, Korea ranks as the 11th largest economy globally and is the seventh member of the "30-50 club"—nations with populations exceeding 50 million and per capita incomes over $30,000. According to the democracy index by The Economist, Korea is classified as a 'full democracy.' Korea's national development, which achieved rapid growth by swiftly shedding the remnants of a feudal predatory state, has thus become a significant historical phenomenon.

There is a consensus that Korea's modernization, which has gained global historical significance, was successful due to effective state intervention. The Developmental State Theory, which has been instrumental in the development of East Asian countries, including Korea, over the past half-century, emphasizes the crucial role of active state intervention in economic growth. This theory highlights strong political leadership, an impartial bureaucracy, and the state's exceptional planning and coordination capabilities as the primary driving forces behind this development.

The question then arises: Can Korea sustain its developmental momentum using the developmental state model in the coming half-century, as it did in the past?

The issue of whether Korea's development narrative, which evolved from an international aid recipient to a donor country, will persist into the 21st century is highly relevant. Various indicators already suggest that the existing developmental state model is no longer functioning effectively.

These empirical phenomena indicate that the classical developmental state model reached its expiration in Korea by the 2000s. Thus, exploring a future national development model based on the concept of stateness remains meaningful. Moreover, this exploration can guide countries aspiring to transition into advanced nations by following Korea's developmental path, enabling them to design more relevant alternative development models.

Korea's Stateness, Actively Exclusive State

The theory of the state examines stateness, which encompasses the characteristics and attributs of a state. It focuses on the functions and roles the state performs within society, the extent and methods of state intervention, and the interaction between the state and society. Thus, stateness can be understood as the nature of the interaction between the state and society. Dryzek and Dunleavy (2009: 135-140) emphasize that a country's stateness can be readily identified by examining the institutional and physical functions the state exerts over society.

Table 1. Stateness Models

	Passive intervention	Active Intervention
Exclusive	Passively Exclusive State (Germany, France in the 1960s)	Actively Exclusive State (Korea, East Asian developmental states, Neoliberalism)
Inclusive	Passively Inclusive State (United States)	Actively Inclusive State (Switzerland, Scandinavian countries)

Source: Adapted from Dryzek & Dunleavy (2009) and Yu (2010)

The first model is the passively exclusive state. This state plays a passive role in addressing social problems and reflects social interests within the state domain only through specific channels, making it an exclusive state form. A representative example is Germany and France in the 1960s and 1970s. By not reflecting social interests beyond labor and business, these countries induced radical politicization of other interest groups.

The second model is the actively exclusive state. This state plays an active role but reflects only specific interests, such as those of businesses and capital, in state policy processes exclusively. This category includes Korea and other East Asian developmental states. Neoliberal policies, such as Thatcherism, which actively reflect the interests of capital and business while suppressing labor interests, also exhibit these characteristics.

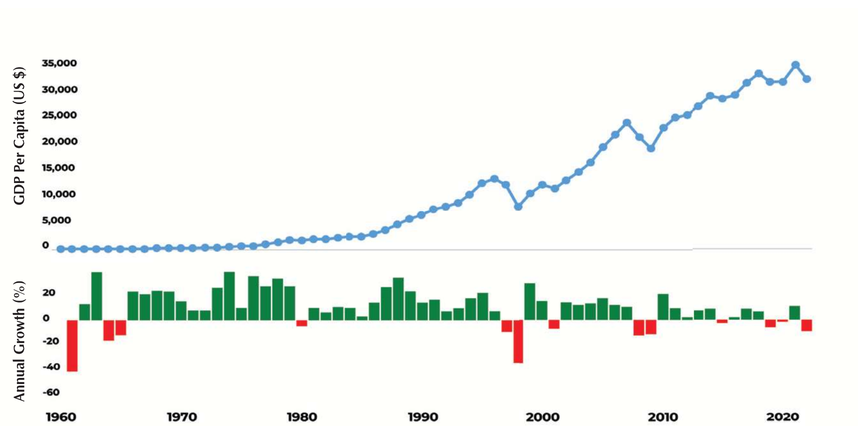
The third model is the passively inclusive state, exemplified by the United States. In this state, government power guarantees the freedom of individuals and groups, allowing various interests to be reflected in the state domain through pluralistic competition. However, state power does not actively guarantee the interests of individuals and groups, distinguishing it from the fourth model.

The fourth model is the actively inclusive state. In this model, the state actively endeavors to comprehensively reflect all societal interests within the state domain. These states not only incorporate all societal interests but also solve social problems through active state coordination. Representative examples include Switzerland and Scandinavian countries, which have developed state-centered corporatism. These states achieve a high level of social cohesion by actively addressing issues such as labor, environment, welfare, gender, and bioethics, thereby resolving social conflicts.

Reflecting on various empirical facts according to Dryzek and Dunleavy's classification, particularly from the perspective of the developmental state theory, it is clear that Korea's stateness exhibits characteristics of an actively exclusive state. Korea, considered the most successful case among market economy countries adopting this system post-World War II, achieved compressed growth as follows.

As of 2022, Korea's GDP was $1.73 trillion, ranking 10th globally, with a per capita GDP of $34,758, ranking 27th, and a trade volume of $1.16 trillion, ranking 7th worldwide. Its export volume of $644.4 billion ranks 5th (WTO, 2022). In 1954, Korea's per capita income (GNI, nominal) was approximately $67, and its GDP was $1.3 billion. By the end of 2022, per capita income (GNI) had increased significantly to $34,758, and GDP had grown approximately 1,331 times to $1.73 trillion.

Figure 1. South Korea GDP Per Capita 1960-2022



Source: https://www.macrotrends.net/global-metrics/countries/KOR/south-korea/gdp-per-capita

The changes in economic growth rate and per capita income growth rate shown in [Figure 1] illustrate the trends from the 1960s, when Korea entered the full-scale industrialization period. The growth rates of these two indicators rose sharply, maintaining high levels until the 1980s and 1990s. As a result, during the 30 years from 1960 to 1989, GDP and per capita GDP recorded high growth rates of 9.3% and 7.4%, respectively. This high growth trend continued until just before the economic crisis in 1997. This 30-year period is a typical example of a developmental state, marked by remarkable achievements driven by the state setting long-term goals and mobilizing social resources based on private ownership and market mechanisms. This period exemplifies two main characteristics of a developmental state.

First, questioning the universality of economic growth theories based on a free-market economy, Johnson (1985:18-19) found the possibility of state-led growth in East Asian experiences. Analyzing Japan's rapid growth after World War II, he stated that the bureaucratic elites of Japan set economic and social development goals for the national economy and pursued "plan-rational" industrial policies, which brought about domestic industrial growth and structural changes, thus driving national development. He emphasized that state intervention in Japan was achieved through cooperation and informal normative agreements between bureaucratic elites and private companies, unlike regulatory interventions based on law (Johnson, 1985: 19-20, 38-39, 51). This phenomenon was also common in Korea.

In contrast, Wade (1990), analyzing the industrialization processes of Taiwan and Korea, emphasized that their development strategies were characterized by export-led approaches aimed at securing relative advantages in the international market, rather than protecting and nurturing domestic industries like Japan. This strategic intervention resulted in the formation of a "governed market" system (Wade, 1990: 29), which prioritized resource allocation for long-term national interests over short-term market adjustments.

The chronic foreign exchange shortage was addressed through measures such as the dispatch of labor forces like miners and nurses overseas in exchange for commercial loans (1961), currency reform (1962), punishment of corrupt wealth accumulation (1964), and nationalization of commercial banks owned by conglomerates. Other measures included realistic interest rate setting (1965), enactment of the Foreign Capital Inducement Act (1966) and introduction of foreign capital, government payment guarantees for commercial loans, dispatch of troops to Vietnam (1964), and normalization of diplomatic relations with Japan (1965). These measures marked the transition to an exported industrialization strategy. Crucially, the successful completion of five economic development five-year plans based on these measures was identified as a specific policy tool.[43]

[43] The Park Chung-hee administration implemented the first four economic development five-year plans. The Chun Doo-Hwan administration carried out the fifth plan, and the Roh Tae-woo and Kim Young-sam administrations implemented the sixth and seventh five-year plans, respectively. However, the fifth and sixth plans were titled "Economic and Social Development Five-Year Plans," and the seventh plan was called the "New Economy Five-Year Plan," indicating a slight shift from the previous economic development plans. Scholars have differing opinions on whether the policy tools and stances during this period possessed the characteristics of a developmental state. Nonetheless, it is clear that these five-year plans exhibited both continuity and discontinuity with previous plans, having ambivalent attributes. Subsequently, no further economic development five-year plans were established.

Table 2. Economic Development Five-Year Plans in Korea

Phase	Period	Direction and Goals	Main Achievements
1st Plan	1962-1966	• Establishing the foundation for economic development through expanding basic industries and social overhead capital • Target growth rate: 7.1%	• Average annual growth rate: 8.5% • Per capita income: \$91 → \$131 (current prices) • Merchandise export growth rate: 38.6%
2nd Plan	1967-1971	• Promoting self-sufficient economy through modernization of industrial structure • Target growth rate: 7.0%	• Average annual growth rate: 9.6% • Per capita income: \$150 → \$292 • Merchandise export growth rate: 33.8%
3rd Plan	1972-1976	• Establishing a self-sufficient economy through harmony of growth, stability, and balance • Target growth rate: 8.6%	• Average annual growth rate: 9.2% • Per capita income: \$324 → \$826 • Merchandise export growth rate: 32.7%
4th Plan	1977-1981	• Establishing a self-reliant growth structure through technological innovation and efficiency improvement • Target growth rate: 9.2%	• Average annual growth rate: 5.8% • Per capita income: \$1,047→\$1,842 - Merchandise export growth rate: 11.1%
5th Plan	1982-1986	• Promoting social development and welfare improvement through economic stability and balanced growth • Target growth rate: 7.6%	• Average annual growth rate: 9.8% • Per capita income: \$1,957→\$2,742 • Merchandise export growth rate: 10.5%

Source: Kang (2000) and KOSIS (2013)

Secondly, behind all these policies was a competent and autonomous state apparatus, specifically a capable bureaucratic group. Evans (1995), focusing on the governance of policy-making in developmental states, emphasized the ‘embedded autonomy’ of the state bureaucratic organization as a condition for effectively implementing strategic industrial development policies without being captured by capital. Horizontally, elite technocratic groups and large conglomerates (chaebols) shared information through close cooperative relationships to formulate strategic industrial policies. Vertically, the organized authoritarian state bureaucratic system maintained relative autonomy from capital, regulating short-term capital interests while pursuing long-term, community-oriented economic growth policies.[44]

Indeed, Korea established and organized state apparatuses for state-led economic

[44] The role of skilled civil servants in the formulation and implementation of economic development plans cannot be overstated. In April 1963, South Korea enacted the National Civil Service Act, establishing an institutional foundation that enabled the recruitment of competent career bureaucrats. Particularly during the Park Chung-hee era, the bureaucracy was characterized by a high level of expertise, relative autonomy from political influence, and an exclusive status in the policy-making process compared to other actors. The Korean bureaucracy of this period was able to utilize the resources acquired through its expertise and autonomy to build a mobilization system aimed at effectively achieving policy objectives, exemplified by the Saemaul Undong (New Village Movement) (Yoon Kyun Soo & Park Jinwoo, 2016: 229). The economic development strategy, relying on the restructured administrative apparatus and bureaucratic leadership following the Third Republic, established channels and interfaces that connected the market and the state. The interconnected micro-level approach between state bureaucrats and the market, which persisted until the 1980s, served as a conduit through which the state's will penetrated the market.

development by setting up the Economic Planning Agency(EPA) in 1961. From December 1963, the Minister of the Economic Planning Agency concurrently served as Deputy Prime Minister, overseeing the "Monthly Economic Trend Report Meetings." These meetings included the Prime Minister, all ministers, the Governor of the Bank of Korea, heads of relevant financial institutions, special advisors to the President, the ruling party's policy committee chairperson, and relevant standing committee chairpersons. This made the institution a 'leading agency' that coordinated policies not only between ministries but also among businesses. Compared to the leading agencies in Japan and Taiwan, this was the most powerful and authoritative official body (Yoon Sang Woo, 2001: 168). Additionally, Korea established the legal and institutional framework for an "export-first policy" and set up various government investment agencies to act as catalysts for economic development.

In summary, the "Miracle of the Han River," which gained world-historical significance, was due to two key characteristics of a strong developmental state: state autonomy and excellent state capacity (Evans, 1995). State autonomy refers to the ability of the state to set and pursue goals independently, rather than merely reflecting the interests of civil society (Skocpol, 1985: 9). One institutional characteristic of a developmental state is that the scope of state intervention in society is strategic and limited (Amsden, 1989). Korea exemplifies this, as the state maintained a high degree of relative autonomy from various social forces and interest groups, enabling it to pursue policies according to its own set goals, which contributed to its high growth.

State capacity refers to the ability to overcome actual or potential opposition from social groups and implement official goals, including institutional capability in forming policies and laws, controlling corruption, and enforcing laws. For example, during the high-growth period of the 1970s and 1980s, despite the need for state intervention and social demands in areas such as welfare, environment, and democracy, the state intentionally ignored and suppressed these areas, selectively allocating all resources to achieve given goals. This is a representative indicator of the state capacity at that time.

In a developmental state, goals established by strong state autonomy could be effectively implemented by strong state capacity. State autonomy is related to setting development goals, and state capacity is the ability to execute them (Yu Hyun -jong, 2011: 255).

However, after democratization in 1987 and the IMF crisis in 1997, Korea experienced a dismantling of the developmental state and underwent a discontinuous change in stateness, which can be termed a "post-developmental state." Despite the legacy of the developmental state, a post-developmental state cannot function like a developmental state and is not yet politically and socially prepared to transition to new state models such as a "neoliberal developmental state," "competitive state," "social investment state," or "Keynesian Welfare State," among others (Park Sang-yong, 2012: 67).

During the transition to a post-developmental state, Korea experienced a weakening of state autonomy and state capacity, which no one desired. This began with the phenomenon termed the "Paradox of Success" by Im Hyuk-Baek (1994), where the economic achievements attained through the developmental state planted the seeds for its own collapse. The results were increased economic and social polarization and intensified group conflicts, directly leading to a decline in national happiness. Examining this in detail reveals the following points in next Section.

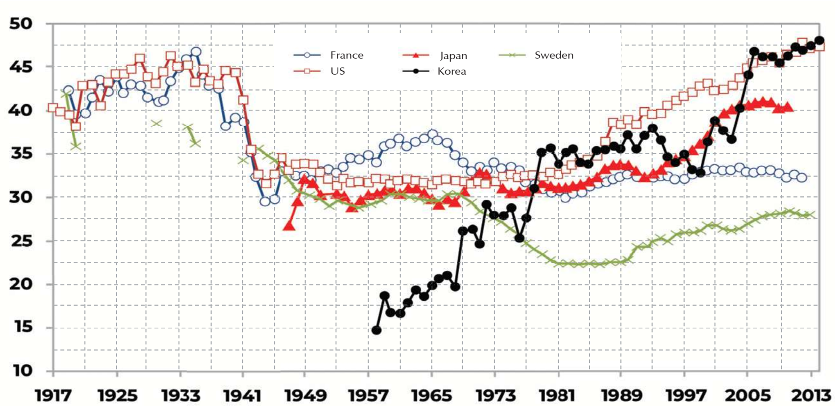
'Paradox of Success' and Pathologies of the Post-Developmental State

In the 1980s and 1990s, Korea experienced rapid economic growth, accompanied by the development of the market and civil society. However, as the economy grew, the private sector increasingly opposed state economic intervention, demanding privatization and liberalization. Simultaneously, calls for political democratization from civil society grew louder. The expansion of large conglomerates (chaebols) increased their autonomy and influence in state-chaebol relations. The opening and liberalization of financial markets weakened state control over finance, which had relied on financial repression. Additionally, the growing influence of labor and civil society made it impossible to maintain the state's strategy of exclusion and repression of labor (Kim In-chun, 2017).

As inefficiencies and corruption in state-led economic and financial systems became widespread, arguments emerged that state-led economic management was no longer valid. This phenomenon, termed the "Paradox of Success," led to a growing perception that the developmental state model, characterized by state-led exclusion of civil society, was unjustified.

Furthermore, changes in the international trade environment, including the establishment of the WTO system through the Uruguay Round negotiations, demanded market liberalization and did not allow the pursuit of mercantilist export-led policies. The restructuring program proposed to Korea by the IMF as part of the Stand-By Arrangement in 1997 spurred financialization and globalization of the economy, rendering the policy tools of the developmental state ineffective. The dismantling of 16 out of the top 30 chaebol groups resulted in massive bankruptcies of small and medium-sized enterprises (SMEs), high unemployment, and high exchange rates, causing destructive aftereffects and significant national sacrifices. These outcomes highlighted the inevitable consequences of pursuing short-term, capital-intensive growth strategies, prompting a reevaluation of Korea's growth model.

Figure 2. Top 10% Income Share Comparison (Unit: %)

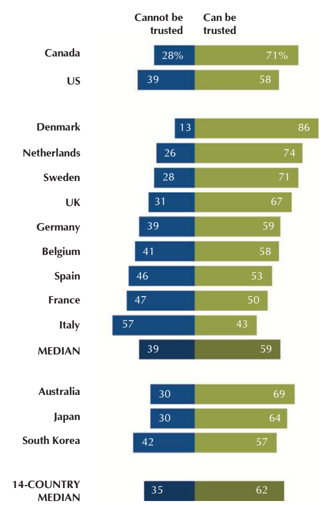


Source: Hong (2015)

As shown in [Figure 2], income inequality in Korea has dramatically increased since 1957, reaching a level comparable to that of the United States, a pioneer of neoliberalism. This increase has led to sharp internal conflicts and social costs within Korean society, centered around the interpretation of economic growth and development outcomes. The concentration of economic development benefits in specific groups raises fundamental questions and skepticism about the ultimate purpose of economic development, which has become pervasive in Korean society. Consequently, economic polarization and social inequality have emerged as critical areas where state capacity needs to be centrally deployed.

This situation has naturally led to public opinion calling for a change in growth strategy. However, it clashes with opposing views, making the balance between growth and distribution a central ideological and value conflict in Korean social discourse. Particularly since the 1997 financial crisis, the trend of low growth in the Korean economy has become entrenched, placing growth and distribution in a conflicting relationshi p. The emphasis on either side has become a crucial criterion for determining the nature of the State.

Figure 3. International Comparison of Social Trust: % who say that, in general, most people ...

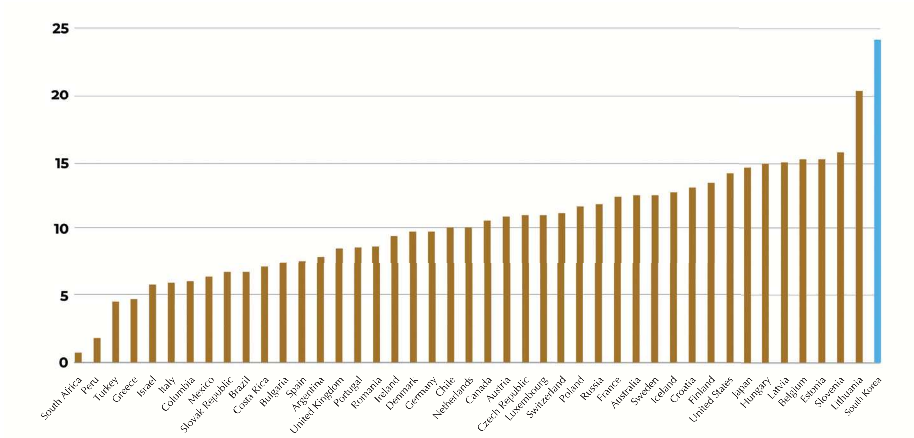


Source: Pew Research Center 2020

The ideological confusion and rapid compressed growth in Korea's development process have undermined social stability and adversely affected the formation of social trust. As shown in [Figure 3], which compares generalized trust internationally, Korea's "Can be trusted" ratio is 57%, which is lower than the 14-country median of 62%. Societies with high levels of trust are mostly Nordic countries, whereas Southern European societies that have experienced economic crises since 2010, and Turkey, which recently faced political crises, have very low levels of trust.

One of the most dramatic indicators urging changes in South Korea's growth strategy and national development model is the suicide rate. [Figure 4] illustrates the international comparison of suicide rates, showing that South Korea's suicide rate is overwhelmingly higher among major OECD countries. In particular, the elderly suicide rate in South Korea was 60.6 per 100,000 in 2022, maintaining the highest level in the OECD. Additionally, suicide is the leading cause of death among the youth, accounting for 42.3% of deaths among teenagers, 50.6% among those in their 20s, and 37.9% among those in their 30s, highlighting that the issue is severe not only among the elderly but also among the youth (Kostat 2023).

Figure 4. International Comparison of Suicide Rates per 100,000 Population

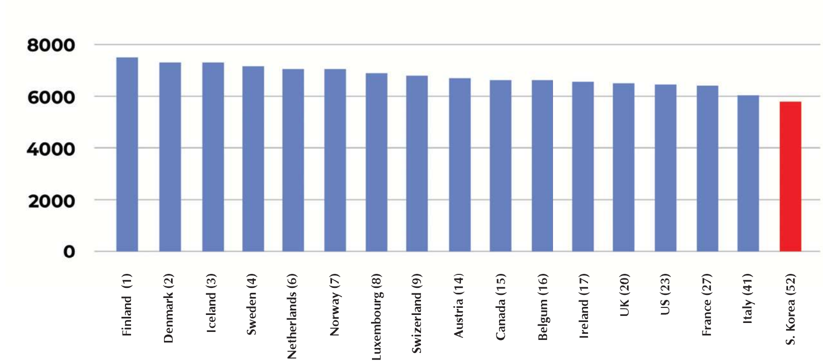


Source: OECD 2023

The United Nations World Happiness Report vividly highlights the overall imbalance and instability of Korean society. The 2019 World Happiness Report ranked the happiness of the people in Korea, the world's 11th largest economy, as 32nd out of 34 OECD countries and 54th out of 156 countries globally. According to this report, the life satisfaction of Koreans is lower than that of people in Northern and Western Europe, as well as South America and Southern Europe. The subjective well-being level is significantly lower than economic income or living standards (cf. [Figure 5]).

Since democratization in 1987, Korea has witnessed deepening economic polarization, social conflicts, and a 'Hell Joseon' society where everyone struggles to survive on their own. After overcoming the 1997 IMF crisis, the 2007 financial crisis originating from the United States severely impacted the Korean economy, leading to ongoing economic fluctuations and political and social changes. This has ultimately resulted in the emergence of the 'N-Po generation' who despairingly cry out 'I am ruined in this life' ('I-Saeng-Mang').

Figure 5. Country Ranking by Life Evaluations in 2021-2023



Source: World Happiness Report (2024), UN)

Examining the changes in Korean society after the period of compressed growth, one must question the development strategy that drove this growth and the nature of the state that led it. How and why did the economic growth that everyone desired result in economic polarization and social inequality that no one wanted? This underscores the need to establish a new national development model. Two critical questions arise: Where should we go? And how should we get there?

The first question stems from the need to redefine the role of the state to enable political and social development and sustainable growth, reflecting a new balance between growth and distribution, and innovation and preservation. The second question addresses how to create the conditions for systemic transition beyond the reality of serious social conflicts and antagonistic confrontations in a stage of development marked by low growth. The journey to answer these questions should begin with a reflection on the historically structured and socially conditioned characteristics of Korea's state theory, rather than theoretical orientations or normative belief systems.

The Path from an Actively Exclusive State to an Actively Inclusive State

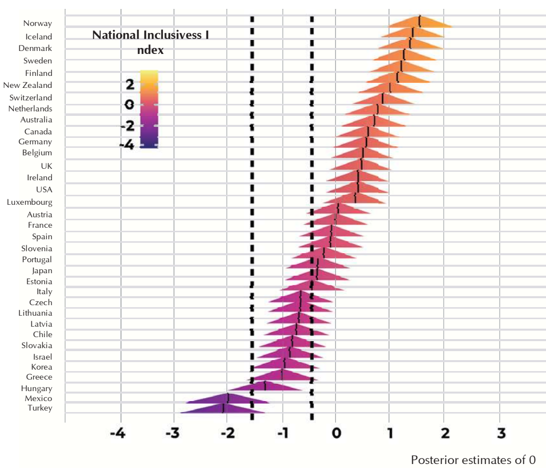
The first question, "Where should we go?" In the past, Korea was categorized as an actively exclusive state. However, since democratization in 1987 and the IMF crisis in 1997, the role of the state has somewhat relaxed, and societal interests are being more inclusively reflected. This suggests a slow and passive evolution towards an inclusive state, as proposed by Dryzek & Dunleavy (2009). This is evident from the dissolution of the Economic Planning Board, which drove national development, the abandonment of the five-year economic development plans, and the multifaceted but passive responses to transitional social conflicts. The establishment of a democratic system through freer and fairer elections since democratization in 1987, and the expanded roles of civil society and NGOs representing diverse social interests, also attest to this trend.

Since the 1997 IMF crisis, Korea has established a more open economic system through economic restructuring and has continued efforts to enhance economic inclusiveness by expanding support for SMEs and creating a fair competitive environment. Various social welfare policies and programs have been introduced to protect the socially vulnerable, and political debates on the introduction of basic income have become more active. Discussions on the necessity of strengthening social safety nets, such as national pensions, health insurance, and unemployment insurance, have also become commonplace.

The transition to an inclusive state can be a desirable alternative as it can re-consolidate the energy for national development by promoting social cohesion, which was relatively neglected during the developmental state period. Inclusiveness should be understood not just in a passive sense, such as providing a minimal level of social safety net for the socially disadvantaged or reintegrating the unemployed into the labor market. Instead, it should be actively interpreted to emphasize the expansion of social security and the inclusiveness of the social system itself, where the voices of individuals, labor, and social minorities are justly represented.

From this perspective, Korea's inclusiveness index is significantly behind major foreign countries, particularly those classified as actively inclusive states, such as Switzerland and the Scandinavian countries (see [Figure 6]).

Figure 6. International comparison of Inclusiveness Index



Source: Kim Sung-Geun (2021: 245) in Park Joon (2021)

As a result of measuring Korea's inclusiveness through international comparison[45], Korea ranks 32nd out of 36 OECD countries, placing it significantly low in the inclusiveness index. The dotted lines in the figure represent Korea's 95% credible interval, showing a statistically significant difference compared to many countries positioned above Luxembourg. The top ranks are occupied by Nordic countries, Iceland, New Zealand, Switzerland, and the Netherlands, while the lowest ranks

[45] The estimation of the National Inclusiveness Index involves the summation of 66 indicators to facilitate international comparison among 36 OECD countries. This process utilizes international data from sources such as the OECD, UN, V-Dem, and ISSP. The aggregation of indicators employs Item Response Theory (IRT), a method used by the V-Dem Institute at the University of Gothenburg for calculating the Democracy Index. This approach probabilistically estimates the latent attributes of entities using observable indicators, resulting in point estimates and 95% credible intervals. Due to significant missing annual data, the average of each indicator from 2000-2019 is considered a single observation. For countries with no data for the entire 20-year period, the overall country average value of the indicator is used as a replacement. For detailed information, refer to Park Joon et al. (2021).

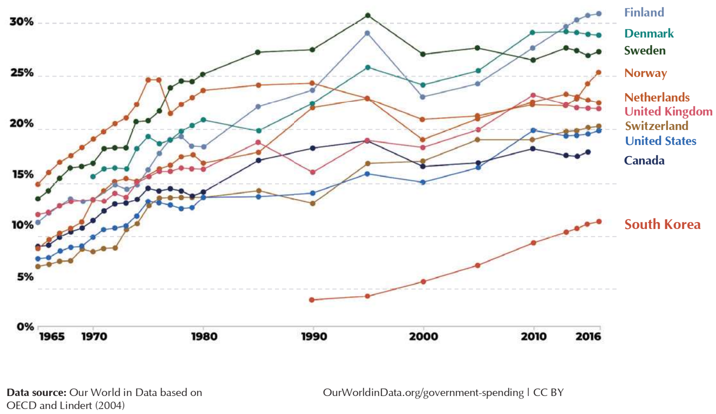
include Turkey, Mexico, Hungary, and Greece, with Korea aligning closely with these countries. In terms of income inequality, Korea is comparable to the United States and Japan (cf. [Figure 2]), but its overall inclusiveness index is much lower than these two countries, showing a level of inclusiveness that does not match its economic size.

Therefore, Korea faces the challenge of transforming the attributes of an actively exclusive state, which it accumulated while pursuing the developmental state model, into those of an inclusive state. Recent economic research has demonstrated that deepening inequality is not only unjust but also detrimental to growth and development. Studies by Alesina & Perotti (1996) and Perotti (1996) have shown, through cases in Latin America and East Asia, that severe inequality can lead to heightened social conflict and political instability. Additionally, Aghion et al. (1999) argued that severe inequality can hinder human capital investment and reduce productivity. Acemoglu & Robinson (2012) warned that when wealth and power are concentrated in the hands of a few elites, the development of inclusive institutions is impeded, lowering incentives for labor and innovation, which in turn can reduce growth rates. Synthesizing these observations, improving inequality and strengthening inclusiveness can expand the freedoms of economically disadvantaged groups and promote development, while also enhancing quality of life and happiness. In other words, strengthening inclusiveness can serve as an alternative model for the post-developmental state.

According to Dryzek & Dunleavy's classification (2009: 135-140), inclusive states can be divided into passively inclusive states and actively inclusive states. Given the severe levels of social inequality and the resulting political conflicts in Korea, it seems natural to aim for an actively inclusive state model, akin to those of Switzerland and the Scandinavian countries.

Although expectations for the state's role in society are very high, social consensus is lacking, making the economic and social costs of transitioning to an actively inclusive state substantial. This is especially evident when considering the immediate welfare costs Korea would have to bear compared to the economic scale of Scandinavian countries (cf. [Figure 7]). Additionally, although Korea still retains the institutional legacy and path dependency of a strong developmental state, it is highly uncertain whether Korea still possesses the restructuring and systemic transition capabilities it had during the 1970s-80s developmental state era, considering the 'explosion of participation' in the 2000s and the resulting policy failures.

Figure 7. Public social spending as a share of GPD



Source: file:///C:/Users/user/Downloads/social-spending-oecd-longrun%20(1). svg

Note: Social spending includes the following areas: health, old age, incapacity-related benefits, family, active labor market programs, unemployment, and housing.

From this perspective, it can be argued that Korea's development direction is better suited to a pluralistic model similar to the Anglo-American model, i.e., a passively inclusive state model, rather than the actively inclusive state model of Switzerland and Scandinavian countries. This model, which facilitates the reflection of individual interests in the state domain through pluralistic competition, may not be suitable for Korea's current social situation, where individuals are already leading self-reliant lives. Additionally, it may conflict with Korea's path dependency, which retains strong stateness. Thus, rather than artificially reforming the state by passively transitioning its role and reducing state capacity, it may be more feasible to leverage the strong state's role embedded in the social community, considering Korea's historical centralization and path dependency from the developmental state.

In summary, for Korea in the post-developmental state period attempting a systemic transition, targeting a balance between a passively inclusive state and an actively inclusive state, as suggested by Dryzek & Dunleavy's ideal types, seems more suitable and realistic. The key question is straightforward: Is there a new state model that can avoid the high costs associated with an actively inclusive state model while also avoiding the high risks of a passively inclusive state model? If so, what is it?

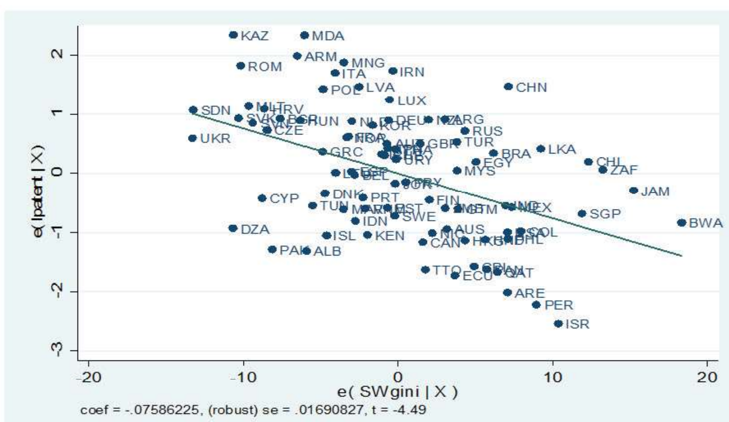
This second question, concerning the journey of systemic transition, raises the necessity of a new social contract that can resolve various political and social conflicts surrounding freedom and responsibility, rights and duties, and inquiries about the transition strategies to achieve this. Without concrete discussions on transition management, visions are mere declarations.

Effective systemic transition requires policy integration across various fields, institutional complementarity between production and welfare regimes, the fusion of social and economic policies, and the integration of technology and social systems. An approach that links long-term visions with short-term policies and activities on the ground is necessary. This study emphasizes that the most effective strategy, and the greatest weakness of most countries caught in the middle-income trap, including Korea, is innovation. A virtuous cycle of innovation and inclusiveness can serve as an alternative. Improving inequality and expanding inclusiveness can promote innovation, and innovation can enhance productivity necessary for expanding inclusiveness, creating a virtuous cycle between inclusiveness and innovation as a key to systemic transition. [46]

In reality, Korea has faced severe backlash from taxi drivers and other workers in traditional industries against ride-sharing services like Uber, preventing such innovative industries from taking root. In contrast, in countries with robust social safety nets like Northern Europe, resistance to innovation is minimal, allowing unicorn companies like Uber and Airbnb to thrive. What is the reason for this?

Rapid technological innovation can eliminate existing jobs, and without proactive labor market policies such as unemployment insurance, social safety nets, technology training, and government-led job matching, there will be strong backlash against innovation, similar to the Luddite Movement during the early 19th century Industrial Revolution (IMF, 2017; Won J.H. et al., 2017). This fact becomes even more evident when examining the relationship between inequality levels measured by the Gini coefficient and the number of patent applications per capita or total factor productivity growth rates (cf. [Figure 8]). The relationship between the two is clearly inverse (Lee, 2018), providing clear evidence that expanding inclusiveness promotes innovation.

Figure 8. The Relationship Between Income Inequality and Patent Applications



Source: Lee (2018)

46 The World Bank's "World Development Report 2024" focuses on the concept of the Middle-Income Trap, highlighting South Korea as a successful example of overcoming this economic challenge. The report suggests strategies for middle-income countries to transition into high-income economies, emphasizing the '3i' strategy: investment, technology infusion, and innovation. The Middle-Income Trap refers to the stagnation that middle-income countries often experience, preventing them from advancing to high-income status. The report highlights South Korea's success through financial market liberalization, foreign capital attraction, investments in R&D and education, and comprehensive reforms following the 1997 financial crisis. For detailed information, refer to the 2024 World Development Report Concept Note and 2024 World Development Report Announcement.

Note: The relationship between the Gini coefficient and patent applications after controlling for per capita income, private credit, higher education, and research and development expenditure.

Ultimately, strengthening inclusiveness and innovation interact to lead to the economic growth of an inclusive state where everyone prospers. Additionally, efforts to improve inequality, proactive and expansive macroeconomic policies, and measures to curb vested interests and rent-seeking while mitigating unfairness must be simultaneously undertaken to pave the way from the confusion of the post-developmental state to an actively inclusive state.

However, the inclusiveness mentioned here goes beyond inclusive growth aimed primarily at alleviating income inequality and improving quality of life. It aligns more closely with the international community's focus on inclusive governance, the political and institutional foundation that enables this. For instance, the OECD (2014: 80) defines inclusive growth as 'economic growth that creates opportunities for all population groups and distributes the fruits of growth fairly across society.' The most important indicators here are not GDP but multidimensional indicators such as jobs, skills, education, health, environment, civic participation, and social networks, suggesting that national development should be evaluated from such a multidimensional perspective.

This perspective aligns with the argument by Acemoglu and Robinson (2012) that an unfair and non-inclusive economic system, where power and wealth are concentrated in the hands of a small elite, suppresses incentives for innovation, thereby necessitating institutional innovation within the broader social system to foster innovation. In other words, the expansion of inclusivity is contingent upon the establishment of a comprehensive governance system capable of driving such inclusivity. This study seeks to make sure that the construction of an inclusive state, as it aims to formalize, does not merely focus on the transformation of the economic system but also aspires to reinforce inclusivity and enact a comprehensive systemic transformation across all aspects of governance, including political, economic, social, cultural, and international relations.

Furthermore, for an effective systemic transition, there is a need for policy integration across various sectors, institutional complementarity between production regimes and welfare regimes, and the convergence of social and economic policies, as well as technological and social systems. An approach that can connect and integrate a long-term vision with short-term policies and activities on the ground is also necessary.

Conclusion: innovative inclusive state as a new state model

From the perspective of the welfare state, European history can be divided into three phases: the preparatory phase, the expansion phase, and the restructuring phase (Esping-Andersen 1990). The key elements of the preparatory phase are industrialization and democratization. Once these two conditions are met, the welfare state expands because the demands of the electorate increase, and the state's capacity has grown sufficiently to meet them.

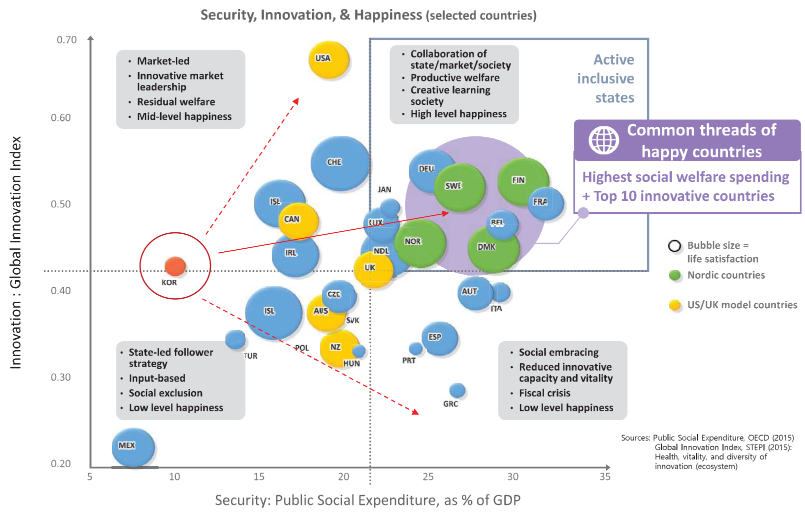
However, today's European welfare state is facing a crisis. The European welfare state was made possible by two conditions: the security free-riding on the military power symbolized by NATO and the significant economic gap with the lagging Asian economies. These two conditions have now disappeared. The economic growth rates of major European countries in 2023 clearly demonstrate this. Germany: -0.3%, the United Kingdom: -0.4%, France: 0.6%, Italy: 0.2%, and Spain: 1.3%. The GDP gap between the United States and Europe is also widening, and Europe's economic size is likely to be overtaken by China.

Over the past 80 years, South Korea has been striving to build a compressed welfare state through rapid industrialization and democratization. However, the Southern European model of the welfare state has revealed many problems even within Europe, while the Northern European model is the most ideal but also the most challenging goal. It is time for late-capitalist countries like South Korea to leverage their latecomer advantages to build an alternative national model that retains the strengths of the welfare state while enhancing economic innovation and socio-political inclusion.

Based on this observation, this article has examined the current situation of Korea in the post-developmental state period and proposes the innovative inclusive state as a future direction for sustainable development. Considering Korea's unique structured history and contemporary context, it is argued that there is a need to establish a future direction as an innovative inclusive state before moving towards the ideal type of an actively inclusive state. This is because Korea, through its developmental state period, established a predatory economic system that stifled innovation mechanisms, particularly those for technological innovation and human capital enhancement (Seong Gyung-ryung. et al., 2017: 62). This observation aligns with Acemoglu & Robinson's (2012) findings that establishing predatory political and economic institutions suppresses technological innovation and human capital development, leading to economic decline.

Figure 9 is a graphical representation showing the relationshi p between social security (measured by public social expenditure as a percentage of GDP), innovation (measured by the Global Innovation Index), and happiness (represented by bubble size indicating life satisfaction) among selected countries. The chart highlights several key points.

Figure 9. Conceptual Framework of an Innovative Inclusive State and Post-Developmental State's Aspirational Goals



Source: Seong et al. (2017: 70)

1. Market-led Model or Passively Exclusive States (Top Left Quadrant): Countries like the USA are characterized by innovative market leadership, residual welfare, and mid-level happiness.
2. State-led Follower Strategy or Actively Exclusive States (Bottom Left Quadrant): Countries like South Korea are indicated by lower levels of social expenditure and innovation, leading to lower levels of happiness.
3. Social Embracing Model or Passive Inclusive States (Bottom Right Quadrant): Countries like Greece show social embracing with reduced innovative capacity, fiscal crises, and low-level happiness.
4. Active Inclusive States (Top Right Quadrant): Nordic countries (e.g., Sweden, Norway, Denmark) and others are characterized by a collaboration between the state, market, and society, productive welfare, creative learning society, and high levels of happiness. These countries are highlighted as having the highest social welfare spending and are among the top 10 innovative countries.

The experiences of Nordic countries and Switzerland, which have developed the world's best welfare states, demonstrate that nations with dynamic economic growth and robust social security systems invariably have an optimal combination of inclusiveness and innovation. Innovation thus serves as the foundation for sustainable development, the future vision of an inclusive state. From the perspective of state theory, an innovative inclusive state is a proposal to transform Korea's national system, which has not yet shed the legacy of the developmental state and is experimenting with various models in the context of the post-developmental state, into a social market economy that enables sustainable development by combining inclusiveness and innovation.

The innovative inclusive state model can replace the exhausted developmental state theory and the transitional post-developmental state model as a new national development model.[47] Therefore, this state model could serve as a benchmark for contemporary developing countries that cannot pursue the state-led development strategy that Korea once did. However, it is essential to remember that all state theories are practice-driven models inherently embedded in practice and historically theorized. This exploratory proposal and direction must be accompanied by concrete practices and continuous course corrections to be established as a new state theory. One should never forget that every path was initially uncharted and unknown.

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[47] Figure 9 highlights that traditional welfare states excel in both inclusiveness and innovation, raising the question of whether the "Innovative Inclusive State" can be meaningfully distinguished from these established models. Nevertheless, several critical distinctions can be articulated between the "Innovative Inclusive State" and traditional welfare states. First, Historical Trajectory and Developmental Pathways: Traditional welfare states predominantly emerged in Western contexts during the advanced stages of industrialization and democratization, with a primary focus on constructing economic and social systems underpinned by robust social safety nets and inclusiveness. In contrast, the "Innovative Inclusive State" is conceived as a model bridging the developmental state and post-developmental state phases, particularly addressing the novel challenges confronting late-industrializing and transitional economies. Second, Emphasis on Transitional Dynamics: The "Innovative Inclusive State" is designed to rectify the economic disparities and social conflicts that have stemmed from the developmental state model by simultaneously advancing both inclusiveness and innovation. This model places a heightened emphasis on the synergistic interaction between innovation and inclusiveness, aiming to harmonize economic growth with social stability—a focus that diverges from the more static nature of traditional welfare states. Third, Evolution of State Functions: The "Innovative Inclusive State" redefines the role of the state by maintaining the robust interventionist policies characteristic of developmental states, while concurrently fostering broader social participation and inclusiveness. Unlike traditional welfare states, which are primarily oriented toward the provision of social safety nets and welfare, this model underscores the necessity of dual enhancement—both economic innovation and social inclusiveness—as integral components of sustainable development. In sum, while the "Innovative Inclusive State" shares certain commonalities with traditional welfare states, it represents a distinct model tailored to the specific developmental trajectories and socio-economic challenges of transitional economies. This model seeks to build upon the legacy of the developmental state, proposing a novel pathway for national development that integrates innovation with inclusiveness as a means of achieving sustainable growth and social cohesion.

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