

Research Summary

The research project, “Political Economy of Financial Reform in Japan and South Korea: Institutional Design and Development from a Comparative Perspective,” aimed at examining the ways in which Japan and South Korea responded to financial crises in the 1990s and at exploring the reasons for the variation in the endurance and depth of that reform over time. Initial research found that conventional wisdom suggests a “shock therapy” approach worked well in South Korea: strong political leadership and international pressure from the International Monetary Fund broke a deadlock over reform. In contrast, it has been argued that reform in Japan, after that country’s period of acute financial crisis in the same year, was less successful: most accounts are of a gradualist reform approach managed by bureaucrats, taking much longer to get the economy back on track.

Thus, shock therapy is traditionally associated with deep-seated reform in Korea while gradualism with surface-level reform in Japan. Two different reform approaches seem to explain the divergent reform outcomes in the years immediately after the crisis. However, the scene looks very different a decade out from crisis. My findings suggest while a reversion to the old practices in Korea contributed to a new crisis in 2002-3 that created millions of credit delinquents, reforms have been deeper and more enduring in Japan. This research explores the reasons why.

To explain the very different picture a decade after crisis, the research analyzes these divergent reform outcomes in Korea and Japan by taking seriously the political leadership in reform processes and its relationship with other key political variables. In particular, the short presidential cycle in Korea due to five-year single-term presidency, combined with a strong bureaucracy, leads to a cyclical process of presidential reform initiatives followed by their reliance on bureaucratic ideas and capacities to manage challenges in the implementation phase. This pattern of bargaining between political leadership and bureaucrats shows how initial success in recovering from the crisis lost its momentum for deeper reforms. Japan’s belated response to a crisis with weak political leadership in a parliamentary system and a strong bureaucracy made people skeptical about the prospect of successful reforms. The very delayed response, however, with the bureaucracy tainted with a series of scandals paradoxically laid the ground for the strong political leadership of Koizumi that transformed the old regime more successfully than anyone would have anticipated.

This finding suggests that we must exercise care in making generalization concerning merits of presidentialism in reform politics. While the decisiveness of presidential systems over parliamentary systems in coping with crises might explain the initial phase of reforms, the sustainability of reforms depends on the institutional foundation of the political leadership

and its policy coordination with bureaucracy in implementation phase. It might also explain why the reform efforts in many Latin American countries under presidential systems, mostly without strong and capable bureaucracies, failed to successfully achieve their goals. The paradox of political leadership shows the perils of presidential system for deeper reform.

Publication of the Results of Research Project:

Verbal Presentation (Date, Venue, Name of Conference, Title of Presentation, Presenter, etc.)

Thesis (Name of Journal and its Date, Title and Author of Thesis, etc.)

- Heon-Joo Jung, “Reassessing Reform Outcomes in South Korea and Japan A Decade after crisis : The Paradox of Political Leadership,”
Ph.D. Dissertation, University of Pennsylvania, August 2008

Book (Publisher and Date of the Book, Title and Author of the Book, etc.)