



Capitalism Effects through Asian Crisis: An Analysis of South Korea's Economic Policy in the Welfare State Perspective

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Abstract

The Asian financial crisis with a marked fall in the value of the Thai currency (Bath), initially a currency crisis was followed by a financial crisis in non-bank financial institutions which had to be closed due to bankruptcy. The economic crisis was followed and spread to South Korea, Malaysia, Indonesia, the Philippines, Singapore and other Asian countries. International institutions reacted to help with the Asian crisis, initially The International Monetary Fund (IMF) after being asked for assistance by Asian countries provided assistance. Many analyzes have been given by financial, economic and political experts, one of which is Weiss and Hobson who analyzed that the Asian economic crisis appeared to have two faces namely; the external face is in the Deep Crisis area and the external face is in the ordinary crisis area, while the crisis occurs from the role of international actors, both state and non-state actors. The social policy approach that is applied takes welfare state steps, with welfare programs implemented by South Korea including reforms in the fields of labor, market and finance, BUMN and active social policies to provide social security for the unemployed or for those who become poor in the period of national economic reform. Weiss and Hobson concluded that state guided capitalism was one of the causes of the Asian crisis.

Keywords: Asian crisis, capitalism, welfare state

Introduction

Asia experienced a financial crisis that started with the collapse of currency values Thai Bath in mid-June 1997. At first as a currency crisis. Finally 58 non-bank financial institutions had to be closed due to bankruptcy. This crisis then spread to South Korea, Malaysia, Indonesia, the Philippines and even Singapore (Ferrari & Tran, 2022). The baht, won, ringgit and rupiah currencies experienced sharp depreciation. The next stage is the spread of the currency crisis to the stock market. The first explanation is that this phenomenon is a reaction to the

government's policy of increasing interest rates to tighten liquidity. This is a classic and conventional symptom and is the first prescription of the IMF. If the interest rate is high, the stock price will fall (Liu et al., 2017).

The international community is extending its hand to help Asia. Initially the IMF, after being asked by the government of the country concerned, as in Thailand and Indonesia. The United States and Japan immediately intervened in Indonesia. The reason is that they are more afraid of the regional impact when Indonesia is attacked. Countermeasures in Indonesia did not produce results so that South Korea had to ask for IMF assistance (Mulyaman & Ismail, 2020). The international world, especially America, is becoming more concerned. If the Southeast Asian disease were to infect Japan and Japan eventually experienced an economic setback, the US economy, and perhaps also Europe, would be affected. America's trade deficit will increase again if Asia reduces its imports and begins to boost its exports with a depreciating currency (Kumar et al., 2019).

Banking in South Korea, Indonesia and Thailand collapsed and many banks were closed. The real sector was also hit hard, many companies closed and unemployment was widespread in these countries. This economic crisis came as a surprise because the fundamentals of the Asian economy were seen as quite strong and the World Bank praised them (Abbas & Wang, 2020).

Results and Discussion

Asian Crisis Analysis

Many analyzes provided by many financial experts, economy experts and political economy expert for the events of the crisis of capitalism in Asia 1997-1999. One of them is the analysis provided from the University of Sydney, Australia. In the book *State Power and Economic Strength Revisited, What's so special about the Asian crisis?* Provides an analysis of the role of the less powerful state in organizing the economy and international actors which led to the crisis of capitalism in Asia in 1997-1999. Furthermore, there was an initial hypothesis that the 1997-1999 Asian capitalism crisis showed that state power was irrelevant to economic power in an increasingly integrated or globalized economic world. A different thesis from their previous thesis about *States and Economic Development* (Makohon & Adamenko, 2023).

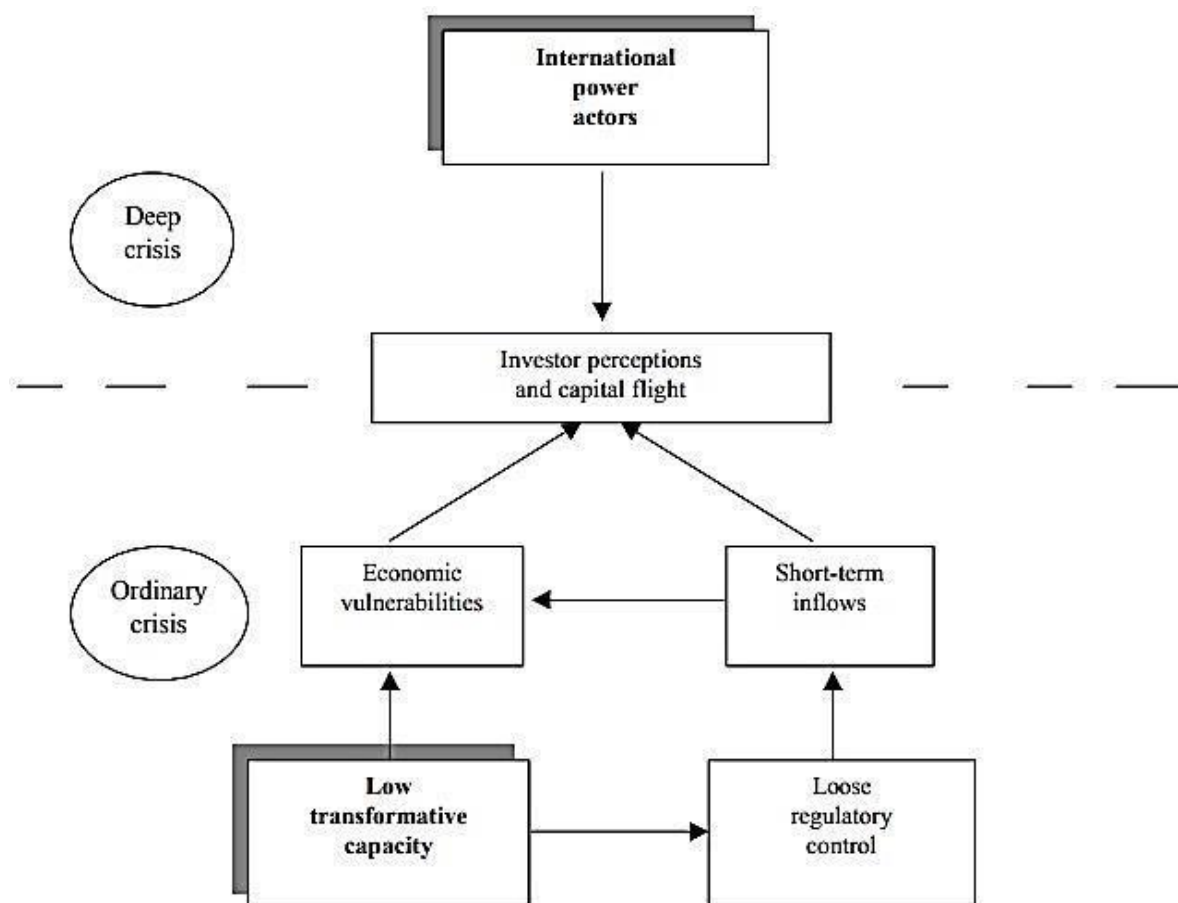
The question whether the thesis on *States and Economic Development* has been weakened by the global economy and economic crisis? The answer is outlined in two parts. First, it provides a historical analysis of the different responses of countries to external pressures. The state is an important variable in facing external crises to maintain the state's economic condition. Second, the description which describes that the power of the state has an important role in explaining the source and level of seriousness of the crisis of Asian capitalism (K. Kim, 2023). Analyzes that the crisis is in the deep crisis area and the face of the economy in Asia shows two faces, namely the internal external face which is in the deep crisis area and the internal face which feels in the ordinary crisis area (Figure 1). The crisis occurred from the role of international actors, both states and non-state actors. Globalization has mediator's

Capitalism Effects through Asian Crisis: An Analysis of South Korea's Economic Policy in the Welfare State Perspective

namely domestic institutions within the country and by state power. The more stable the state's institutional capacity to coordinate economic changes, the stronger the state's ability to reduce the influence of external pressures. Conversely, the weaker the country's institutional capacity, the more vulnerable the country's economy is to pressure from outside, see state capacity as very important in maintaining economic strength. Countries with good institutional capacity are not only able to withstand external pressures, but are also able to turn external challenges into opportunities in the domestic sphere (Bavorová et al., 2021).

Experts defines state strength, among others, as the state's ability to negotiate and collaborate with the most important social actors, especially the dominant economic class. State power becomes an autonomous institution, namely the separation of state institutions from personal interests in the state. Infrastructural ability, namely the ability to embrace as well as govern the community. In other words, state power is determined not only by institutional autonomy, but also by the ability of actors and non-state actors, to attach themselves socially with various components of society, to build "governed interdependence", not only in the domestic sphere, but also in global scope (Choi, 2021).

Figure 1. The Two Faces of the Asian Crisis



Source: Weiss (1999).

The study specifically discusses the crisis of capitalism experienced by South Korea. The crisis that occurred in South Korea occurred due to the weakness of the state in organizing the

domestic economy and the weakness of the state in facing external pressures that prompted the crisis. In fact, because of the geopolitical changes in the world after the Cold War. The United States has not massively assisted South Korea because of its instability. South Korea is no longer in the interests of the United States (Schwekendiek & Xu, 2020).

The Crisis of Capitalism and the Welfare State

Many analysis is very interesting because it is different views that come from Western political-economic observers who are mostly Neo-Liberalism. In analyzing the crisis of Asian capitalism, point of view is not that of Neo-Liberalism. On the other hand, the writings of these two Australian academics criticize the role of neo-liberalism because it has played a major role in the crisis of capitalism in Asia. International actors who represent Neo-Liberalism such as the IMF, the US Treasury and the Wallstreet Stock Exchange, received significant criticism (“Asian Capitalism’ and the Financial Crisis,” 2021).

What happened in Asia is always referred to by observers as the financial crisis. There are almost no observers and researchers, let alone researchers at the World Bank or the IMF, who call the Asian crisis a crisis of capitalism. In this paper I use the term crisis of capitalism to refer to the Asian financial crisis. The fact is that this is true, the economic crisis that occurred in Asia in 1997-1999, which is still being felt in Indonesia until now, is one of the cycles of the crisis of capitalism, since the big crisis in 1929-1933 which is called The Great Depression. The Great Depression (Malaise / Great Crisis of Capitalism) in the United States, starting from Wall Street (New York stock exchange) in October 1929. The Great Depression not only caused widespread economic destruction and unemployment, but also human degradation. The Great Depression occurred, under the belief in Capitalism, due to market disequilibrium which resulted in an economic catastrophe (“BURUNDI: Economic ‘Catastrophe,’” 2020).

The crisis of capitalism in America gave birth to two reactions from two schools of thought. The first stream was run by American President Franklin Delano Roosevelt with a welfare program known as The New Deal which wanted social justice more. The second stream was sponsored by, among others, Hoover, a former President (1929-1933) who was replaced by Roosevelt, criticizing that The New Deal's policy on welfare welfare, which is referred to as The New Deal, which is more state, is a serious threat to American traditions, namely liberty. This flow was also supported by politicians and academics, including Roco Pound, an influential legal expert at the time and a law lecturer at Harvard University. Like Hoover, Pound also thinks that the understanding of the welfare state will only lead the country to deviate from American traditions. This flow is then referred to as Neo-Liberalism. Neo-Liberalism eventually won and became very strong under the leadership of President Ronald Reagan. In Britain, Neo-Liberalism developed very strongly during the long reign of Prime Minister Margaret Thacter. This Neo-Liberalism-style world economic order quickly brings about economic destruction in developing countries due to the Neo-Liberalism economic order, besides being exploitative of the natural resources and human resources of developing countries, it also creates dependence on poor countries. towards developed countries (Petersmann & Steinbach, 2021).

Capitalism Effects through Asian Crisis: An Analysis of South Korea's Economic Policy in the Welfare State Perspective

The process of globalization, a very popular expression referred to as the intensification of networks of social and economic relationships that are unusually rapid. Because social welfare development is often seen only as a burden of economic growth and a symbol of state intervention, a nihilistic belief has developed that social welfare institutions are intrinsically uneconomic and even pathological, anywhere and under any conditions. Is it true that capitalism is a historical inevitability? Is it right if a country implements a capitalist economic system, then the role and commitment of the state to uphold justice and social welfare must be abolished? Capitalism is not a historical inevitability, but rather an idea and system that deviates and harms the common people. To achieve economic balance, the role of the state is needed to support justice and social welfare (Pronko et al., 2021). The capitalization economic system must always experience a cycle of crises like what happened in 1929 when the Malaise occurred, because this system has no control tools to balance the situation. Everything is left to the market economy. The regional economic crisis that hit Asia in 1997-1999 was one of the cycles of the crisis of capitalism.

South Korea and the End of Asian Capitalism

South Korea is a showcase of capitalism built by the United States in the face of the Cold War against Eastern Bloc Socialism. The Korean War which is also referred to as a proxy war between the United States and its Western allies against the communist People's Republic of China and the Soviet Union broke out between 25 June 1950 to July 27, 1953. The main war participants were North Korea and South Korea. South Korea's main allies include the United States, Canada, Australia, and the United Kingdom although many other countries send troops under the UN flag. North Korea's allies included the People's Republic of China, which provided military power, and the Soviet Union, which provided war advisers and aircraft pilots, as well as weapons, to Chinese and North Korean forces. In The United States of America termed this conflict as a police action under the flag of the United Nations. This war ended on July 27, 1953 when the United States, the People's Republic of China, and North Korea signed an armistice agreement. Since then, the United States has made South Korea a "show room" or "showcase" of Capitalism which was deliberately built to show Socialism that Capitalism is superior and successful(D. W. Kim, 2023).

Various foreign debt, investment and export facilities were provided by the United States and Western countries so that in a short time South Korea became a developed country (Cherkasov, 2021). The country is included in the trillion dollar countries and is one of the four Asian tigers. Indeed, when compared with Socialist North Korea, South Korea is more prosperous. South Korea is an example of the success of capitalism and on the other hand it becomes very depending on the United States. However, the crisis of capitalism that began with the 1997-1998 financial crisis toppled South Korea. The crisis that hit Asian countries left misery and the collapse of the Asian economy as a whole. As a result of the crisis, South Korea experienced an economic collapse. After the crisis, South Korea took steps towards a welfare state, no longer continuing the tradition of capitalism (Wilson, 2022). Welfare programs implemented by South Korea include reforming the labor, market and financial sectors, BUMN, and the introduction of active social policy initiatives aimed at providing social

security for the unemployed or for those who become poor during the national economic restructuring (Tu & Long, 2017).

This initiative of active social policy is intended to build a productive welfare state. This initiative includes three aspects namely; Standard Minimum Living Guarantee (Minimum Living Standard Guarantee) which replaces the Social Assistance Program (Public Assistance Program 1965); National Pension Program (National Pension Program 1972) for all members of society by renewing its management structure by increasing aspects of its financial sustainability and accountability; and National Health Insurance (National Health Insurance). Since its founding, South Korea as a feature of the capitalist system has focused on economic growth rather than providing social protection. Previously, health insurance and pension insurance were only available to those working in large companies. Meanwhile, those who work in small companies do not get this guarantee. In this case, the government is only a regulator with regard to how to fund the social welfare program (Cho & Choi, 2017). South Korea thus adheres to a developmental welfare state system, namely the political policy of the elites is to implement strategies in order to achieve economic growth through social policies. The social policy approach adopted by the Republic of Korea is highly relevant for public policy makers in the East Asia region and beyond. The economic crisis that hit the Asian region in 1997-1998 forced Asian countries to take active social policy initiatives to get out of the economic crisis (Ahn et al., 2023).

The strategies implemented succeeded in creating social stability, social cohesion and renewed prospects for economic development. With regard to policy decision-making processes, the Republic of Korea is able to guarantee large-scale social and political consensus among politicians and labor organizations. The government is also determined to develop a welfare state that can go beyond the social policy provisions hit by the storm of the economic crisis. President Kim Dae Jung espouses a productive welfare perspective that is capable of developing social policies and can increase economic competition while still respecting the social obligations of every member of society. The Republic of Korea's economic reform package to reform its national health insurance program, national pension program and social benefit program illustrates that Korea has moved away from the notion of a developmental Welfare State which subordinates social interests to mere economic considerations (Lim & Moon, 2022).

Transparency and accountability in formulating and implementing policies to ensure public support are critical to achieving active social policy initiatives. Great transparency and accountability will increase the efficiency of the social system. These two principles can also be a medium for maintaining political support for the implementation of the system. Apart from South Korea, which was previously capitalist, Bulgaria, which was previously socialist, now applies the concept of a welfare state. Bulgaria, like South Korea, believes that the notion of the Welfare State is the right way to get out of a crisis, both the crisis of capitalism and the crisis of Socialism. The welfare state is a social welfare system that gives a bigger role to the state (government) to allocate a portion of public funds to ensure that the basic needs of its citizens are met. The welfare state is part of a modern society that is in line with a capitalist market economy and a democratic political structure. Countries that fall into this category are

Capitalism Effects through Asian Crisis: An Analysis of South Korea's Economic Policy in the Welfare State Perspective

Australia, and New Zealand as well as most of the countries of Western and Northern Europe (Garritzmann et al., 2023).

Adam Smith, the father of world capitalism, apart from advocating individualistic capitalism, also inserted the notion of the welfare state. Smith recognized that the state also has a duty to protect members of society against injustice or oppression from any other member of society. Smith recommended that the state improve public services and maintain public institutions in order to provide benefits to the wider community. Smith's opinion about the duties of the state to improve the welfare of the wider community is the forerunner of the modern welfare state theory. In contrast to this thought, in Smith's system, he admits that the state also has the duty of liberal-capitalism, there is a Laissez-faire view that rejects state intervention. This attitude of refusing government intervention was the cause of the Great Depression in 1929.

Keynes introduced the principle of government involvement, which has now developed into macroeconomics. This thought developed into the Welfare State principle. For this principle, it is not freedom that is the highest value of life, but justice. The market mechanism cannot produce justice because it directs the available resources to the few most efficient hands. Justice, therefore, always requires government involvement to help the poor through welfare programs and the tax system. The government is also involved in drafting other laws and regulations such as antitrust and antitrust laws.

The main objectives of the welfare state include: (1) controlling and utilizing socio-economic resources for the public interest; (2) ensure fair and equitable distribution of wealth; (3) reduce poverty; Keynes introduced the principle of government involvement, (4) providing social insurance (education, health) for the poor; (5) provide subsidies for basic social services for disadvantaged people; (6) provide social protection for every citizen.

Conclusion

Paper Weiss & Hobson (2003), as the main theme is shown in the book *Politics and Markets in the Wake of the Asian Crisis*, would like to provide an overview of the following question about whether Asian Capitalism is over? The paper does not explicitly criticize capitalism, let alone provide an in-depth argument whether the economic crisis that occurred in Asia was due to the failure of capitalism to control market equilibrium. Weiss and Hobson only concluded that State-guided Capitalism was also one of the causes of the crisis in Asia. However, on the other hand, it was argued that Japan did not experience a crisis, even though it experienced long-term economic difficulties despite implementing state-guided capitalism.

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Capitalism Effects through Asian Crisis: An Analysis of South Korea's Economic Policy in the Welfare State Perspective

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