

Dynamic Relations between the State and Business: A Comparative Analysis of France and Korea

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Abstracts

In contrast to the argument of the VoC framework that the firm should be centred in the analysis of economic efficiency under globalisation, this paper suggests that the state still improves the efficiency of economic activities through its initiative and coordinating capacity. We show that economic restructuring, in the areas such as work organisation, R&D system, and corporate governance reform, is still initiated and coordinated by the government, and that organisational traditions, such as state ownership in France and family control in Korea, are sustained. The venture industry of France and Korea is the case.

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As globalisation has been a dominant economic phenomenon since the 1980s, the influence of such trends has been conspicuous: market-led system, firm-centred analysis, and deregulation. A body of research has consequently argued that the firm should be centred in the analysis of economic efficiency. For instance, neo-liberal approaches argue that the state intervention is

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incompetent and bureaucratic, which distorts market autonomy and deteriorates, in the end, transitory market failure (Krugman 1994; Friedman 1993; Buchanan 1986). Free markets, which are characterized by the assumption of profit maximisation, are the optimal organisation for efficiency. However, it is still argued that market economy should be contextually interpreted in terms of institutional structures, since economic activities in a society are affected by its political environments and organizational traditions (Guillén 2004; Lazonick 1991; Amsden 1989).

With regard to the contrasting arguments in understanding the globalization issues of economic activities, an institutional approach suggests a hybrid perspective: firms should be put at the centre of economic change with contextual adjustments (Hall and Soskice 2001). Even though this hybrid approach does not support one best model, such as the economic convergence to the American business model, it turns around our attention from the state and society to firm activities in the framework of analysis. The hybrid approach argues that power shift from government to business is a dominant phenomenon. It introduces following evidence: the increasing role of private enterprises in R&D system, breakdown of public dominance in career path, creative initiative in restructuring work organisation, and emergence of venture industry with entrepreneurship.

This paper tries to evaluate the appropriateness of the hybrid approach in understanding the dynamic relations between the state and business. This means that we examine whether the state still has positive functions in enhancing economic efficiency under globalisation. Using a comparative analysis of France and South Korea (hereafter Korea), we will suggest answers to such questions: with what indicators should the change of relations between the state and business be measured; and what can be an

alternative framework in explaining and predicting the relations. The experience of the 1980s' economic restructuring in France and the 1990s' financial crisis in Korea, which have been characterised *dirigiste* economies, provides an opportunity to evaluate whether existing approaches to state-business relations are appropriate or not.

This paper consists of following sections. The first section critically reviews contrasting approaches between neo-liberalism and institutionalism. The varieties of capitalism (hereafter, VoC) framework is also reviewed to understand the state-business relations under globalisation. The framework certainly overcomes dichotomous aspects of neo-liberalism and institutionalism, emphasizing firms' contributions under national contexts to the economic restructuring and competitiveness. We, however, note that the sustained government's role, for instance in R&D system, is not ignorable (Taylor 2004).

In the second section, based on the VoC model, we deal with major indicators for state-business relations, the selection of case countries, and time window for an empirical analysis of this paper. The third section analyses the changing relations between the state and business with a set of empirical data, placing emphasis on the initiatives in economic agenda setting. We will discuss the relevance of existing approaches in analysing state-business relations. Finally, an alternative framework is suggested to capture dynamic characteristics of the state-business relations with an analysis of venture industries in France and Korea. Conclusion follows.

I. Competing Perspectives

“Throughout much of the post-war era, a debate has raged between the neoclassical proponents of reliance on the market and the proponents of state intervention” (Gilpin 2001: 305). During the 1970s and 1980s, the ideology of neo-liberalism and the doctrine of structural adjustment has been dominant, while in the late 1980s and early 1990s, institutional approach for state’s developmental strategy expanded its ground, based on the prosperity of East Asian economies (Gilpin 2001: 306). However, the economic restructuring and austerity in the 1990s and the 1997 financial crisis in East Asia triggered once again the debate between market-based and state-initiative approaches.

1. Debates between Neo-liberalism and Institutionalism

Over the past 25 years, neo-liberalism has been widespread as a set of economic policies under globalization (Martinez and García 1997). Arguing that “the government solution to a problem is usually as bad as the problem” (Friedman 1993), neo-liberal approach argues for the rule of markets and deregulation: an unregulated market is the best way to increase economic growth, which leads to greater openness to international trade and investment (Martinez and García 1997). “The imperfect nature of the state results in government failures in the forms of regulatory capture, rent-seeking, corruptions, and so on, whose costs are typically greater than the costs of market failure, and therefore it is usually better for the state not to try to correct market failures” (Chang 2002: 540).

Some neo-liberal economists do not disregard the role of the

state, though it is restricted to a narrow definition. With the concept of 'contractarian', they emphasise the importance of the rules of game. They, however, restrict the role of the state to providing a standard for judging the fairness and justice of specific behaviour of individuals (McKenzie 1986). According to neo-liberal approaches, the 1997 Asian financial crisis implies that we should consider neo-liberal remedies for state-led economic policies. The state-led economies were criticised as involving crony capitalism, while most of the centrally-planned countries fell apart economically and politically in the late 1980s and early 1990s (Krugman 1994). It is argued that these economies were successful, primarily because of their rapid accumulation of capital and labour, the basic factors of production.

Neo-liberalism, however, is criticised for disregarding the effective roles of the state. Even the accumulation of capital and labour can be resulted from effective government policies (Gilpin 2001). Where neoclassical economists see market failures in Korean *chaebol* and Japanese *keiretsu*, institutional economists may find an organisational success (Lazonick 1991), which is sophisticated by government policy. The IMF is also faced with criticism that it forced neo-liberal policy goals on countries at times when they were not appropriate without considering national contexts, e.g. during the 1997 Asian financial crisis (Stiglitz 2003).

Contrary to the neo-liberal interpretations of the economic success in Korea, Taiwan, Hong Kong, and Singapore that these economies had pursued market conforming economic development strategies, institutional perspectives argue that it was due to the crucial role played by the state and its industrial policies (Gilpin 2001: 317). They insist that each country needs its own characteristic economic policies according to its contextually organised institutional set-ups, e.g. the level of economic

development and political environment, which are different from those of developed countries. At the core of the outstanding success were the power and the policies of the state (Krasner 1976) and close ties among government, local banks, and industry (Gilpin 2001).

Their focus on the state, for instance, is highlighted by the economic growth of Korea and Taiwan, which illustrates that Korea's phenomenal growth is the results of reciprocity in which the government imposes strict performance standards on those industries and companies that it aids (Amsden 1989), and that allocation decisions were divided between markets and public administration (Wade 1990). The success of Japan as an industrial power, and of other Asian countries like Singapore, clearly owes more to learned patterns of economic behaviour, oriented towards national goals of industrial catch-up, than to firms responding independently as programmed profit maximizers to random price signals (Mathews 2003). This is because institutions, especially the government, embody certain values that individuals internalize, which can be called as 'constitutive role of institutions' (Chang and Evans 2000) or 'downward reconstitutive causation from institutions to individuals' (Hodgson 2000).

Neo-liberal approaches, however, criticise that government is a source of inefficiency, and that the positive effects are only temporary: "the Great Depression, like most other periods of severe unemployment, was produced by government mismanagement rather than by any inherent instability of the private economy" (Friedman 1962). After the 1997 Asian financial crisis, neo-liberal approaches insist that the crisis clearly illustrates the state-failure. They criticise the powerful state that could control all the process of resource allocation, but not prevented the crisis domino: crony capitalism. Institutional approach is also criticised

that it would take a risk of underestimating the need for changes by keeping path-dependency. Korean government, for instance, has not done a fundamental restructuring that is necessary in a global 'freer' market, although it has experienced shifts in the balance of power among economic institutions (Kim 1999).

The dichotomous views of state-business relations between neo-liberal and institutional approaches do not grasp the current economic phenomenon under globalisation. While the state-led economies like Japan are stuck into depression since the 1990s, it is quite evident that the state is at the centre in overcoming the crisis: a minimal state can do no harm, but a weak state can do no good either (World Bank 1997). The dichotomous approaches, however, have missed the positive dimension of each other's: market failure can be complemented with state's coordinating involvement. Therefore we need an alternative approach to reflect the dynamic and symbiotic-like relations between the state and business.

2. Varieties of Capitalism Framework

The VoC framework is a hybrid model that reflects the World Development Report which declares that economic development is dependent on a society's getting its political as well as its economic fundamentals right (World Bank 1997). Based on historical institutionalism, the VoC framework suggests six basic elements for its firm-centred approach: a relational view of the firm, liberal and coordinated market economies (hereafter, CMEs and LMEs), the role of institutions and organizations, the role of culture and history, institutional infrastructure and corporate strategy, and institutional complementarities (Hall and Soskice 2001: 6-21).

The VoC framework synthesises political context and economic fundamentals as an alternative solution to the dichotomous approaches of neo-liberal and institutional approaches. It does not wrestle with the state any longer, instead places firm at the centre of analysis. It analyses political economies with firm-centred relations with other institutional aspects such as labour relations, financial structures, and R&D systems: the VoC framework adopts neo-liberal operation in institutional environments. The VoC framework argues that the principal issue for policy makers is not to induce economic actors to cooperate with the government, but to induce economic actors to cooperate more effectively with each other, which reflects its view of economy as an arena in which multiple actors develop competencies by devising better ways of coordinating their endeavours with one another (Hall and Soskice 2001: 45).

The VoC framework finds firms as actors seeking to develop and exploit core competencies or dynamic capabilities, to which critical is the quality of the relations the firm is able to establish, both internally, with its own employees, and externally, with a range of other actors that include suppliers, clients, and collaborators (Hall and Soskice 2001: 6). It suggests five principal aspects firms must develop to acquire their core competencies: industrial relations, vocational training and education, corporate governance, inter-firm relations, and employee coordination. Such indicators can be identified to evaluate the extent to which firms have leadership in establishing relations with other actors in those five areas: bargaining over wages and work conditions, securing suitable workforce, financial market structure, R&D system, and employee participation.

The VoC framework, however, is criticised that it lacks dynamism in explaining why institutional convergence is hard to

achieve, oversimplifying varieties of capitalism just into two categories: coordinated-market economies of Northern European and liberal market economies of the English-speaking countries. It places France and Italy in a third category of 'Mediterranean' economies without theoretical content (Kogut 2003). Therefore empirical data do not support the VoC framework: the VoC framework heavily depends on the inclusion of a major outlier, the USA (Taylor 2004), and the USA has a number of 'German' characteristics in its R&D policy (Niklasson 2002). Contrary to its argument that policy makers induce firms to cooperate with each other, it is still important to incorporate the initiative role of the state in an analysis of economics activities.

Regarding dynamism, the VoC framework disregards the active role of the state in coordinating conflicts between economic actors. In order to promote R&D activities, the passive coordinating role of the government such as tax-cut and subsidy is not sufficient. The USA, a liberal market economy in the VoC framework, makes changes in patent laws, which make it very attractive to companies to invest and get the right to patents even to the findings that were funded by public sources (Schmoch 1999) with a great amount of public funding for R&D (Niklasson 2002).

If the firm, as a core of analysis, is not efficient in coordinating conflicts among economic actors, an alternative model is newly needed. The model should reflect flexible relations among economic actors according to institutional environments, to analyse heterogeneous economic organisations. Critical is who owns initiatives in conflict coordination and agenda setting.

II. A Comparative Analysis of France and Korea

1. Case Selection

The VoC framework does not place France in a clearly defined category, since it has disregarded the coordinating role of the state. While the VoC framework has emphasised the increasing importance of the firm in economic development, it does not pay enough attention to the dynamic conflicts of relations among economic actors. It thus cannot appropriately explain the current shaping of organisational change, which is still coordinated by the state even under globalisation. So, a critical analysis of France in change will clearly require some amendments of the VoC framework to explain dynamic state-business relations.

Orrù, Biggart, and Hamilton (1997) suggest a comparative analysis of economic organisations by juxtaposing three European and three Asian countries. The European countries are France, Germany and Italy; the Asian counterparts are Korea, Japan, and Taiwan. Each pair shows idiosyncratic characteristics: Germany and Japan are called 'alliance capitalism'; France and Korea are categorised as '*dirigiste* capitalism'; and Italy and Taiwan have characteristics of 'familiar capitalism'. Among them, France has experienced economic change by drastically incorporating characteristics of LMEs in the past two decades: higher foreign share of capital in stock exchanges (Morin 2000); deconstruction of concentrated cross-shareholding (Goyer 2003); and lower organisation rate of work force (Hancké 2001). Korea is also an illustrating state, though the VoC framework does not draw attention to it. Korea has been through full-scale restructuring since the 1997 financial crisis under IMF control. Unlike other countries that had agreements on IMF bailout such as the UK in

1976 or Thailand in 1997, it has been a successful model of state-driven economy with impressive outcomes (Amsden 1989). For instance, its trade volume ranked 13th in 2002 from 62nd in 1964 with the government's initiatives.

[Table 1] Organisational Characteristics of France and Korea

	France	Korea
1. State ownership	High	Low
2. Family control	High BEYOND state-led innovation networks	High INSIDE state-led innovation networks
3. Elite networks	Less porous	Less porous
4. Confidence in government	High	High

Source: Annual reports of CAC40 firms of France and 100 large firms of Korea (1998-2005, for state ownership and elite networks); Burt et al. (2000, for elite networks); Tylecote & Visintin (2007, for family control beyond state-led networks); Knack & Keefer (1997, for confidence in government).

As Nelson (1992: 368) points out that "one cannot read the studies of France and Korea, ... without coming away with the strong feeling that nationhood matters and has a decisive influence", France and Korea have common historical backgrounds and political-economic relations: *dirigiste* tradition, concentrated power structure, hostile labour relations, and elite education (Niklasson 2002; Orrù 1997 Nelson 1992). In Korea, the government has been not only a coordinating, but also an initiating player: "the Korean government identified its national champions in selected family-owned business groups and showered them with capital and incentives to push industrial growth in targeted sectors" (Orrù 1997: 381). In France, "beginning with the tenure of President Georges Pompidou in 1969, the government launched the national champions programme with subsidies, public procurement, and monetary policies, in which the cartel-like functioning holding companies owned by single families followed a pattern of vertical

integration" (Orrù1997: 374-375).

A comparative analysis of France and Korea, which have the tag of state-led 'giant pyramid organisation' (Orrù 1997), will illustrate whether the relations between the state and business are in change. We thus select France and Korea for this research.

2. Indicator Selection

The VoC framework analyses innovation and corporate governance in each country with a comparative perspective. To analyse the restructuring process of French innovation system, the VoC framework makes use of vocational training for securing suitable workforce and restructuring of industrial and inter-firm relations. Culpepper (2001), focusing on information flow and employers' organisation, analyses how employers coordinate their action to acquire skilful workforce. Hancké (2001), also emphasizing the creative roles of large firms, argues that the last two decades' economic achievements of French industry have resulted from the successful restructuring in supplier networks and labour relations.

Regarding French corporate governance, the frame employs education system and the manner of corporate control and standardisation process. Lehrer (2001) compares the Airline industries of the UK, Germany and France in the perspective of institutional complementarities with indicators such as labour markets, education system and management style. Tate (2001) analyses how each country's standardisation structure has been constructed, focusing on the relations between the state, firms and governing agency.

With the indicators above, the VoC framework argues that each economy should have its own characteristic way in responding to

exogenous pressures as well as endogenous dynamics, and that contemporary restructuring processes are led not by the state, but by firms and corporate strategy. Based on the analyses of the VOC framework, this paper selects such indicators for innovation and corporate governance: work conditions for industrial relations, R&D systems for education and inter-firm relations, and control and ownership structure for corporate governance. We examine whether the firm-centred framework has achieved validity in explaining the changing relations between the state and business as well as whether varieties of capitalism are still sustained even under convergence pressure by globalisation.

3. Overview of France and Korea since the 1980s

Economic restructuring of the two countries was led by similar factors and processes, though the period did not coincide exactly. Since the mid 1980s, the French economy has confronted with non-price competitiveness.¹⁾ Thus France could not solve the problem with price-centred strategies such as currency devaluation or low wage, which were effective in the 1970s. The Government brought the nationalization policy back into re-privatisation and utilized the national champions dated from President Pompidou. In order to improve the non-price competitiveness, France restructured the labour markets and adjusted the industrial networks. Large firms constructed a new hierarchical cooperation system with regional suppliers. Through the combination of reorganized product development systems and cost advantages, French industry could construct considerably more profitable market niches. Profitability increased and productivity gains were high. Moreover, French industry did particularly well in some high

1) Parts of this section are from Bruno Amable and Bob Hancké's paper (2001).

tech industries such as aerospace and telecommunication.

The Korean economy of the mid-1990s, under Kim Youngsam government, is characterised as globalization. Its mission was to improve national competitiveness through organizational reengineering. Deregulation, privatization, government's restructuring, new education system, and reorganized social plan were implemented. In 1994, the government abandoned the five-year economic planning system and abolished the government board that had been responsible for it. Korea's last three years of the 1990s is labelled by the term of IMF. In the midst of the Asian financial crisis, the economic reform includes *chaebol* restructuring and public sector restructuring. Firms were required to adopt outside directors. Liability for auditors was consolidated, and controlling shareholders are now subject to personal liability. Shareholders rights have improved, as the minimum shareholdings to inspect books or file derivative actions have reduced (OECD 2000).

The outcomes of economic restructuring in both countries are outstanding. The post-1979 data demonstrate that capital stock has grown more rapidly in France than in the UK and Germany, with French performance being second only to that of Japan among G7 economies excluding Canada (Amable and Hancke 2001). For Korea, the GDP per capita exceeded \$10,000 for the first time in 1995, and OECD membership followed it in 1996. Korea finished the IMF-controlled economic system in 2000 two years earlier than planned. Korea enjoys the largest subscription rate of high speed Internet and global competitiveness in information and communication technology (ICT) sectors.

4. Work Organisation

By the early 1990s, many older workers in French industry were

put in early retirement programmes, and younger, more broadly trained workers were hired instead (Amable and Hancké 2001). Between 1982 and 1990, the number of workers in industry fell by 14 percent, while the number of foremen, technicians and engineers increased by over 20 percent (Amable and Hancké 2001). Companies were able to restructure their workforce in this way, because the educational level of the French had increased dramatically in the 1980s (Amable and Hancké 2001). Culpepper (2003) explains that the restructuring of work organisation is contributed by the supportive employer organisation:

Firm-based training in France takes place in private training centres instead of in state-administered schools (p.134).

A close look at the work organization, however, reveals the hidden role of the state. As Culpepper (2003: 134-139) and Amable and Hancké (2001: 125-127) draw attention on the financial source for the restructuring, it is the government-subsidised social plans and weak union organisation that made companies to restructure their workforce. In 1982 the Auroux Law, named for Jean Auroux, was passed to enhance workplace democracy by decentralising the negotiation of working conditions to workplace councils. As unions became less powerful, however, workers lost leverage in the workplace, and employers were able to turn the new governance structures to their own advantage. In 1996, French trade unions fragmented and lost two-thirds of their members, compared with those in 1976 (Mermet 2000).

Meanwhile, the state-led tradition is sustained. The government subsidy program is the case. Both left and right governments subsidised companies to restructure their workforces by footing a large part of the social bill for redundancies. Overall the large

companies shed 20 percent of their jobs in the 1980s (Hancké 2001). From the mid-1980s on, a long series of measures have sought to limit youth unemployment and assist at-risk individuals by subsidising temporary employment and training programs. The best-known young target program is the *travaux d'utilite collective* (TUC, 1984-1989). Part-time work and temporary jobs, including government-subsidised training programs quadrupled, from 2.6 percent to 8.9 percent between 1983 and 1998 (INSEE 1998). The government subsidy, combined with managerial autonomy which was initiated by the re-privatisation and sell-out policy, expedited corporate investment and R&D activities.

In the 1980s of Korea, work organisation was characterised by the term of tradeoffs between economic growth and labour rights. The rights of labour such as unionisation were not prioritised in government's policy, which can be identified as a growth-centred development regime in favour of capital. Job security, instead, was provided. Unemployment rates have been around 3 percent since the 1980s through the early 1990s. For instance, in 1995, the unemployment rate was only 2.0 %. Since the 1997 financial crisis, however, the tradition of life-long employment has not been sustained: in struggle of restructuring, large firms sold their assets and lay off employees. Employers introduced performance-based wage systems and irregular employment policy in the form of temporary workers. This employment system is being extended to public service sectors. Consequently, the annual rate of unemployment has increased to 7% in 1999.

The restructuring process in Korea was also supported by government's laws and financial subsidies. In the first half of 1997, a new labour law was passed, strengthening, on the one hand, the rights of labour, e.g. plural unions, and favouring, on the other hand, the enterprises, e.g. legalisation of lay-off to secure economic

restructuring. The government's expenditure on unemployment abruptly increased to 0.18% of the GDP from zero. During IMF, the state promoted temporary jobs with tax incentives, whose aim was to alleviate the youth unemployment.

In sum, Table 2 illustrates that both countries' subsidies made substantial contribution to the labour market restructuring. During the period whereby the layoffs went through, the social expenditure on unemployment was highest in both countries.

[Table 2] Social Expenditure on Unemployment (in percentage of GDP)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
France	2.37	2.26	2.18	2.04	1.86	1.84	1.91	1.98	2.07	1.92	1.77	1.79	1.84	1.80
Korea	-	-	-	-	-	-	-	-	-	-	-	0.0	0.02	0.18

Source: OECD (2001).

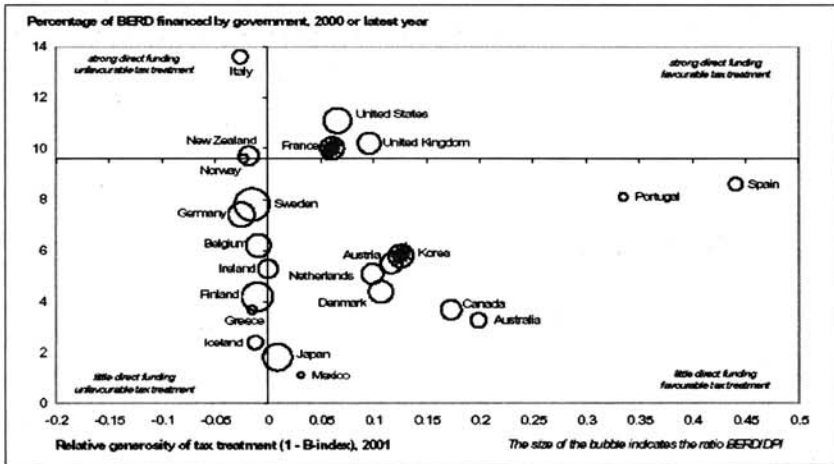
5. R&D System

In regard to French R&D organisations, we cannot understand it without considering CNRS (*Centre National de la Recherche Scientifique*) established in 1939. As a project funding agency as well as a public research institution, CNRS clearly marked out France from other Western countries in size and role: state-led R&D system (Mustar and Laredo 2002). Under the 1982 Research Act (LOP), public research institutes are increasingly involved in cooperation with private sector research centres.

The 1982 Law promoted contract-based research, which facilitated public institutions and researchers to obtain the majority of their research funds from outside: four out of five CNRS units are joint units (*'unités mixtes'*) (Mustar and Laredo 2002). Since the 1982 law, emphasis has been placed on private R&D investments and cooperation between private and public research institutions. CNRS provided financial support and personnel to universities and

industries. Through the 1990s, cooperation between public and private sectors was strengthened with the European Framework Program. The 1999 law was to institutionalise cooperative system for innovation between public research centres and private firms and to provide harmonisation of technology policy among EU countries and OECD. The law also facilitated venture enterprises by introducing incubator system, public-based seed capital funds, and start-up projects competition.

[Figure 1] Direct and Indirect Government Funding of Business R&D



Notes: B-Index = before-tax income needed to break even on one dollar of R&D outlay; BERD = business expenditures on research and development; DPI = business value-added.

Source: OECD (2003).

However, the state's influence has not decreased, because business expenditure on R&D is still weak. In the 1980s, the percentage of the French Gross National Product (GNP) spent for R&D by firms stayed at less than 1% for a long time. Even now, it stagnates at 1.4%, compared with 2% in the USA and 2.3% in Japan (Chabbal 2000). Considering that four out of five CNRS units are joint units between the CNRS and universities (Mustar and Laredo 2002), CNRS's influence on personnel and budget in

innovation is still an important driver for the national innovation system. Tax treatment as an indirect government funding cannot be missed (See Figure 1). France is one of the largest government's funding countries for R&D, with emphasis on coordination and networking under the state's initiatives. The French government launched *RRIT (Reseaux de Recherche et d'Innovation Technologique)* projects in 1999 to promote partnership. The state's influence on R&D has become more important

In Korea, it was the state that led R&D in terms of researchers, budget, and organisations. Two important hubs are KISDI (Korea Information Strategy Development Institute) for strategy development and ETRI (Electronics and Telecommunications Research Institute) for technology research, under the control of MIC (Ministry of Information and Communication). Since the 1980s, however, the industry's role for applied research has increased. For an illustrating case, corporations initiated investment in semiconductor, whereby at an earlier stage the government was reluctant to invest.

Cooperative R&D networks between public and private sectors, however, are still facilitated by the state: the National R&D Program was initiated in 1982 under government's initiatives. *Daeduk Science Town*, for instance, consists of public institutes (e.g. ETRI), universities (e.g. KAIST) and industrial research centres (e.g. Samsung and LG). After the 1997 financial crisis, we should look at the Five-Year (1997-2002) Plan for Science and Technology Innovation. Key aspects of the Five-Year Plan for S&T Innovation are as follows: 1) to increase public R&D investment to the level of 5% of the total government budget by 2005, 2) to increase its investment in basic research to 20% of total government R&D budget, and 3) to expand R&D manpower to 40 researchers for every 10,000 population.²⁾

In sum, French government's policies since the 1980s, clearly departing from the *Colbertist* state, are focusing on the promotion of the role of private firms. Though, the mode of government initiative has not changed. As the Framework Program was also managed by top-down style, the restructuring process in France has been initiated and coordinated by the state. While the business expenditure on R&D has gradually decreased to be less than 1.4% since the 1990s, the government budget for cooperation on R&D has steadily enlarged with average annual increasing rate of 1.5%. Considering that financing is one of key factors in R&D systems, the French system cannot be understood without the state. In 1999, the rate of public investment in R&D compared with GDP is 0.96% in France, while those of the USA, Germany, the UK and Japan are as follows respectively: 0.84%, 0.82%, 0.69%, and 0.64%. In France, the rate of public support for business R&D compared with GDP also ranks 2nd (0.74%) among OECD countries, following Germany (0.75%).

[Table 3] Institutional Set-ups for Change of R&D Organization in France and Korea

Indicators of R&D Organization	Contextual Implications
◆ Resource	◆ government's direct involvement through national programme and public R&D centres such as CNRS (France) and ETRI (Korea) ➔ increasing private sector's R&D expenditure, however still increasing proportion of public investment
◆ Cooperation	◆ public-led R&D activity ➔ active cooperation between public sectors, university and private sectors through <i>unites mixtes</i> through CNRS (France) and Information Promotion Fund through MIC (Korea), however, still rare private-led R&D projects, unlike Japanese sector-based R&D projects

2) www.mocie.go.kr (accessed on 5. Mar. 2004, Ministry of Commerce, Industry and Energy, trade reference centre).

Though Korean government since the 1990s changed its research funding system to productivity-based contract, the policy change, however, did not decrease the government's R&D expenditure. As illustrated in the 1997 special law of innovation of science and technology and the 2000 basic law of science and technology, the Korean government has expanded public R&D budgets.

6. Ownership and Control

Concentration of direct family ownership is very high for both non-listed and even the CAC40 firms (Bloch and Kremp 2001). Family or the state show their presence in holding the control of CAC40 firms with around 20% voting blocks (La Porta et al. 1999). The presence of the state in business career was intensified by the fact that the former *inspecteurs des finances* (controllers of state finance) were for a long time the only leading businessmen (Cassis 1997).

By the mid 1990s, corporate governance changed through government's re-privatisation policy, which was followed by the substantial unravelling of key inter-corporate cross-shareholding (O'Sullivan 2001) through active market financing and aggressive M&A. As equity market has become important, foreign ownership accounts for 35% of stock exchange capitalisation compared with 10% in 1985 (O'Sullivan 2001). Foreign mutual funds have been replacing the bank's role as important investors and providing managerial restructuring such as independent directors and outside monitoring system. Morin (2000: 3) describes this phenomenon as: "directly inspired by the American shareholder value model, the largest French groups are going through a managerial revolution".

The change in ownership structure, however, is proven to be superficial without much effect on decision-making. The way of

decision-making through concentrated ownership has not disappeared, even though the proportion of widely-held controlled-firms is higher than other European countries (La Porta et al. 1999). It is because, for instance, the vast majority of the money raised through privatization-related public share offerings in France was raised by and for the French government rather than by the enterprises that were privatised (O'Sullivan 2001). Even when some money went to these enterprises in the form of subsidies, it was directed to them by the government rather than by the financial markets (O'Sullivan 2001). The French characteristic ownership-control relationships also kept through unequal voting rights and ownership ceiling (Goyer 2003). From 1986, employee participation in ownership took off in France largely by government's initiative as part of its privatisation programme (O'Sullivan 2001).

[Table 4] Firms with Unequal Voting Rights (2001) in %

Exception to one-share, one-vote	France Top 40	Germany Top 30	Japan Top 250	UK Top 250	US Top 1000
firms with ownership ceilings	30	6	0	0	0
firms with unequal voting rights	58	13*	0	10	10

* Figure is for top 250 German firms.

Source: Goyer (2003).

Regarding career path, as illustrated by the background of PDGs (*Presidents Directeurs Generaux*), the connection between the state and private sectors has also increased from the 1980s to the early 1990s (O'Sullivan 2001). 12 of the 15 largest French industrial companies in 1993 were directed by men who parachuted from the state sector (O'Sullivan 2001). Business group is a common feature in France. Companies are linked to one another through a subtly hierarchical network of cross-shareholdings (Cassis 1997).

While restricted under NRE Law (Law on New Economic Regulation) in 2001, there has been a tradition in which CEO holds additional top posts in other companies. This hierarchical as well as cross-controlled firm structure increases the possibility of within-group cooperation. Unlike the usual expectations by financial market restructuring, the French style of big business rushed into M&A hunting rather than new investment in the existing area (O'Sullivan 2001), which implies that the French style continues even under globalisation.

The Korean ownership structure has been characterized by chaebol-centred and bank-financed economy. *Chaebols* account for approximately 16% of the Korean GNP in 1996 and are also major global players (Chang 2003). As of 1997, ten affiliates of the top thirty *chaebols* are listed on the Global Fortune 500 (Chang 2003). One of the most distinguishing characteristics in ownership structure is family connection. The pyramid ownership in Korean *chaebols*, supported by mutual debt guarantee, allowed founders and their families to hold concrete control, even though their direct ownership is just around 5% of the total shares. While many professional managers participate in the board, strategic decisions have only relied on founders and their families. A distinguishing characteristic of career path in Korea is lower mobility among business groups, i.e. internal recruiting.

The 'old' Korean model was challenged by globalisation in the 1990s and restructuring agreements with IMF in 1997. *Chaebols* have been forced to reorganize: to sell well-performing as well as badly-performing affiliates; to concentrate on core competence through M&A and to reorganize firm structure through newly established division for corporate restructuring. The debt-equity ratio decreased from over 300% to below 200%. With liberalization of financial markets, foreign ownership has increased from 5% in

1992 to 44% in 2002, while the total market capitalization of the listed firms on the Korean Stock Exchange (KSE) amounted to about 43% of the country's GDP in 2002 from 28% in 1996. The changes in ownership structure have improved rights of minority shareholders and audit committees, increased outside directors, introduced collective voting and performance-related stock option plans. In general, such reforms have played a key role in restructuring the Korean economic system.

Even though ownership structure, transformed by foreign investment and M&A, has changed, it has not transformed the decision-making structure. In 1994, the internal control (owned by founder, his family and affiliated companies) of the equities in top 30 *chaebols* was 42.7%. In 2002, the proportion has rather increased to 46.2%. In other words, even the IMF-driven financial restructuring since 1997 could not change the family-governed control. The pyramidal structure in the top 3 *chaebols* is also consolidated after a temporary downturn after 1997. The number of affiliates in Samsung group decreased from 80 in 1997 to 45 in 1999. It has rebounded to 63 in 2001. Even though the aggregate foreign ownership of Samsung Electronics has increased to 58% in 2002 from 42% in 2000, Lee Kunhee, Samsung's chairman, however, has not lost the power of decision-making for new investment and political relationship. Career path in management is also dependent on internal recruiting, i.e. within a company or a group. It's not yet even imaginable to see an executive move among *chaebols*, such as from Samsung to LG.

In sum, it seems unlikely that shareholder values are transforming the traditional functions in ownership, control and career path of French economy. This phenomenon illustrates the government's intention not to give up national champions strategy (WSJ Europe 2004). The corporate governance of Korea has never

presented the expected transformation toward the shareholder model, despite the increase of foreign ownership. Recent addresses by Raffarin, prime minister of France and by Lee, deputy prime minister of Korea, are illustrating the sustained French and Korean mechanisms:

I don't think foreign investors should be worried, quite the opposite. We are in favour of new shareholders or partnership but against any moves that could mean jobs moving abroad or the loss of key technologies. We're talking about European champions with a French influence. -Raffarin (WSJ Europe 23. Sep. 2004)

Foreign investors are financially helpful for Korean economy. Speculative foreign funds seeking for hostile M&A are not apparent. If any, however, we consider utilizing domestic institutional investors such as pension funds in order to protect domestic firms' control ownership. -Lee (Donga Daily Newspapers 15. Nov. 2004)

III. An Alternative Approach

Contrary to the explanations of the VoC framework, the changing relations between the state and business do not amount to the degree to which the validity of firm-centred analysis is secured. In France and Korea, negligence of the state cannot grasp the whole picture of restructuring process in work organisations, R&D systems, and corporate governance. State's initiatives in agenda setting and coordinating roles in resource allocation still function in those areas. The firm-centred framework, however, cannot provide appropriate explanations about conflicts between resource providers. For instance, with regard to corporate

governance, there are severe conflicts between firms and other resource providers, especially Anglo-American investors and between governments and firms. Firms are reluctant to adopt external monitoring mechanisms. Trying to keep traditional arrangements in corporate governance, French and Korean governments, on the one hand, urge firms to comply with a certain degree of international standards and, on the other hand, resist accepting all the demands required by shareholder-value orientated investors.

In regard to R&D systems, it is the state that governs the system of cooperation which is related to national competitiveness. It seems impossible that we understand why Korea has achieved a remarkable performance in ICT sector without considering government's initiatives. Why does France relatively fall behind in ICT industry, while it advances in other industries such as aeronautics, space, railway, and nuclear energy? The R&D system whose main coordinator is the state gives us the answer. It is not until recently that CNRS has established the department for telecommunications. In contrast, R&D system for ICT has achieved the most effective cooperation networks among Korean R&D organisations.

[Table 5] The contribution of the ICT sector

	Korea	France	1st ranked state
Employment in the ICT sector (Share of ICT employment in total business sector, %)	2.5	4.0	Sweden (6.3)
Value Added in the ICT sector (Share of ICT value added in total business sector, %)	10.7	5.3	Korea (10.7)
R&D in the ICT sector (Share of ICT R&D in total business sector, %)	40.9	26.4	Greece (46.9)
Trade in the ICT sector (Share of ICT in total trade, %)	20.2	10.2	Ireland (33.1)

Source: OECD (1997).

The VoC framework does not give answers to the following question: why firms in the ICT sector are behind, while firms in car industry do very well in France. The firm is at the core of analysis, which cannot function as a whole-scale coordinator in an economy. The USA that acts like Germany in R&D system (Niklasson, 2002) demonstrates the weakness of the VoC framework.

1. Initiative/ Coordinating Model: From Dichotomous to Dynamic

The phenomena in France and Korea, analyzed in the previous section, illustrate the ironic situation in which the closer we get to the market, the more we need from the government. The discussions so far suggest that we need a dynamic model that can explain overall roles of economic actors and respond to the changing relationship between the state and business under external pressures.

[Table 6] Change in Number of Regulations

Year	Change in number of regulations				Total
	Increase		Decrease		
	New	Others	Abolish	Others	
1998	28	100	174	309	-359
1999	380	346	3,593	191	-3,062
2000	244	416	696	352	-388
2001	509	330	246	261	332
2002	275	83	16	46	296

Source: Regulation Reform White Book, Korea (2002).

In Korea, the government has solely utilised strategic leadership by controlling financial system and legal apparatus. Then, corporations have followed the ready-made strategy (e.g., the

5-Year Economic Development Plans from 1962). In the 1990s, while the state still enjoys initiatives, its intervention transformed itself from direction to coordination. Since 1997, while the number of regulations initially decreased, the trend reversed in a few years, which proves the necessity of the government's coordinating roles to acquire effective competition.

The remarkable success of the ICT industry, such as semiconductor, e-commerce, and mobile telecommunications, is the result of government's coordination and private sector's entrepreneurship (Chang 2003). However, this paper emphasizes the government's coordination role. The Internet bubble of the late 1990s, whereby we find abrupt boom and breakdown, clearly demonstrates the importance of the state's coordination.

[Figure 2] State's Initiative and Coordinating Role

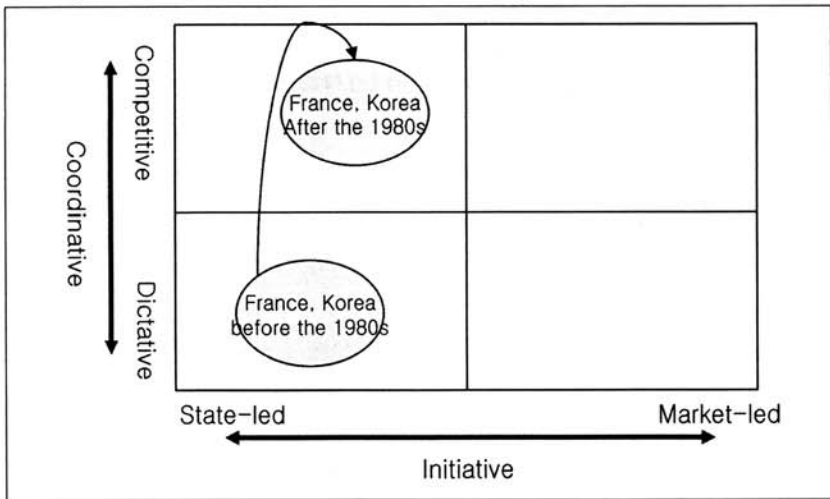


Figure 2 explains the Korean path, but it has a defect to present dynamic interactions between economic actors. It cannot tell the story of society, especially emerging NGO's and employee's roles. NGO is an unprecedented kind of institution. Though it does not have any regulatory authority, it wields powerful influence on

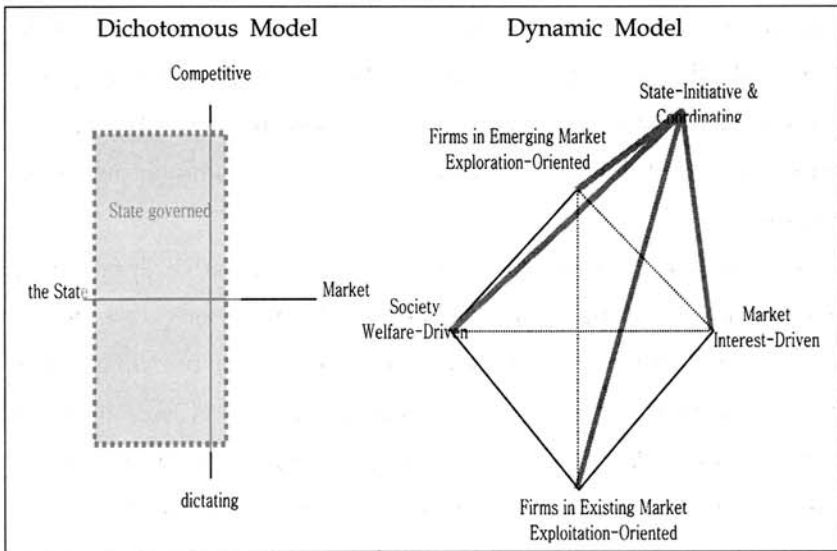
decision-making and plays as a watchdog. Under NGO's pressure, Korean mobile telecommunications providers have gradually decreased the call price since 2000. In regard to corporate governance, NGO such as People's Solidarity for Participatory Democracy filed lawsuits against Samsung's pyramidal ownership structure.

How can we interpret this situation? An alternative approach in this paper makes the government's coordination role come to the core. Society such as NGO in Korea is stricter in pursuing public interest, or welfare than the government in some cases. It, in no wonder, can replace the state's position against the interest-driven market. Leading the movement for individual shareholders' right, Hasung Jang, a professor at Korea University in Seoul, criticized the Noh Moohyun Government for its growth-focused economic policy rather than welfare.³⁾ Another end for the horizontal axis is interest-driven market, which includes foreign investors and financial institutions that function as a force for institutional change.

For the other axis, the vertical line represents the existing cash cow and the emerging market. The vertical line's main factor is entrepreneurship. In the old model, entrepreneurship comes from patrimonial relationship between government and *chaebol*, whose characteristics are state-led, *chaebol*-exploiting and regulation for monopolistic competition. In contrast, in the emerging market, entrepreneurship comes from competitive relationship, whose characteristics are state-coordinating, venture-exploring and regulation for effective competition. The three-dimensional model underlines the state's initiative and coordinating roles well as shed lights on entrepreneurship and social interest.

3) Jang, Hasung. Autumn, 2003. *Philosophy and Reality*, Seoul.

[Figure 3] Dichotomous model vs. Dynamic model



Compared with the dichotomous model, the dynamic one has escaped the dichotomy of whether state's intervention exists or not. As shown in Figure 2, the government's influence is only active in the left side. On the market-initiating side, there is no space for explaining the government's role. It is also the weakness of the VoC framework. It cannot satisfactorily explain the confrontation between markets and the state. The dynamic framework, however, hands over the basic function of the state to the non-governmental sectors. It depends, in some degrees, on both society as well as markets, regardless of whether the focus should be put on the welfare or on the growth. It also depends on entrepreneurship both from firms in existing markets and from firms in emerging markets. The state is to the quadrangular pyramid what the belfry is to the Florentine Cupola. If the belfry could not control the outward forces of the Cupola, the Cupola cannot exist. Nor can the dynamic economic system exist without state's coordinating role. As Castells comments, the networking society expedited by the ICT technology consists of

'Nod'coordinated by the state (2002). This dynamic model fits well with the networking society.

It is clear that the state has been conspicuous, regardless of whether it is of indirect form. It is too early to put the focus on the firm, since we cannot describe the firms' contribution without government's shade. The concept of initiative/coordinating framework illustrates the situation under which the government's role transforms itself from direct and decisive to indirect and supporting one, even though it has still kept initiatives in economic restructuring. In the French and Korean economies, the state-owned decision power changed into the coordinating one. The globally competing system, government cannot achieve the required information (Hancké 2001). Other players like firms, however, cannot coordinate diverse economic activities, because the firms are basically organized to maximize the economic return that prevents them from putting coordination on the priority.

2. A Case of Venture Industry in France and Korea

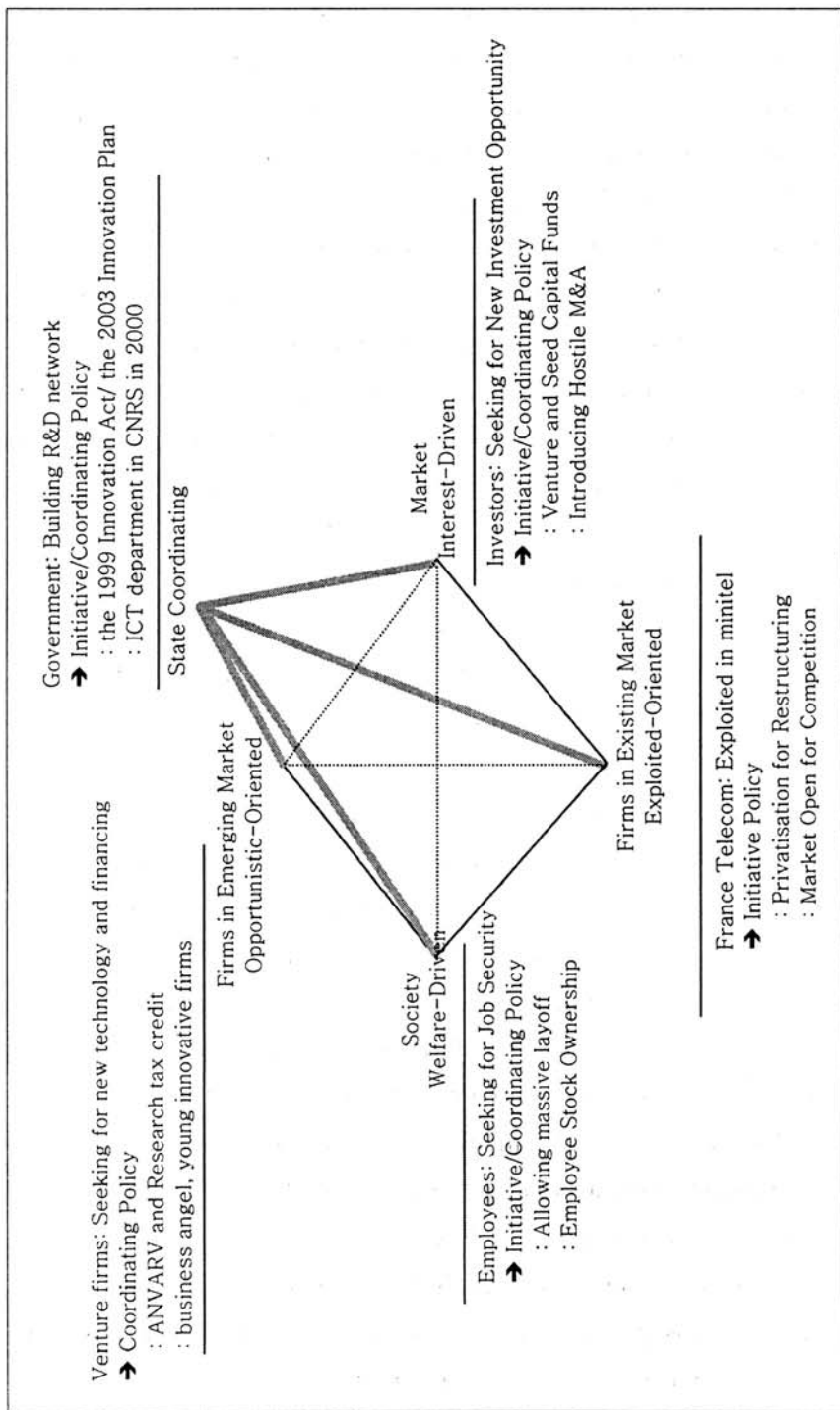
The idea that venture industry could contribute to innovation and economic growth has been dominant in France and Korea. Of 296 pharmaceutical biotechnology firms in France, more than 50% are less than 6 years old (French Ministry of Research and New Technologies 2004). The venture firms in Korea also had the first of their boom in 1999 (Chang 2003; Lee 2000). The dynamic model of initiative and coordinating state will shed light on the mechanism of how venture industry emerges from nothing to something. Attention is paid to the ICT sector.

France is relatively behind in the ICT sector in terms of Internet usage, PC penetration, and related patents, compared with other sectors such as car manufacturing and aeronautical engineering. In

1999, French share of total patent applications at EPO (European Patent Office) is 6.9%, which ranks 4th. French ICT-related patents as a percentage of the national total at EPO is 28.6%, which ranks 13th (OECD 2003). According to the VoC framework, the French laggard in the ICT sector would be the results of institutional constraints that restrict firm's creative activities. Major reasons that are discussed for the French delay in the ICT sector are as followings: cultural tradition, language, and monopoly of France Telecom (Benghozi and Licoppe 2003).

Why cannot France Telecom have initiative or coordinating strategy in order to overcome those ineffective institutional set-ups? The dynamic initiative and coordinating approach provides more persuasive explanations. It is because the failure of governments' coordination: Not till 1999, did the state coordinate the conflicting interests between society (customers who are accustomed to minitel) and markets (investors who seek for new opportunity) and between existing (France Telecom) and emerging industries(venture firms). Unlike R&D systems in successful industries, such as aeronautics and car industry, France has not been equipped with an appropriate R&D system for the ICT sector. Firstly, there has not been a government agency providing centralised coordination to promote innovation (French Ministry of Research and New Technologies 2004). Secondly, there was not the department for ICT within CNRS. The CNET (national telecommunications centre) was operated independently, which was quite different from other successful industries. Thirdly, privatisation of France Telecom was fairly late, which makes new investment and technology from outside blockaded.

[Figure 4] Application of Dynamic model to French ICT sector



In response to the laggard, the French government reshuffled the R&D system. The 1999 Innovation Act provided legal framework which allowed researchers to participate into business projects, while at the same time pursuing a scientific career. The network policy was firstly adopted to foster synergies between major programmes posing challenges which were beyond the capacities of individual private and public partners. The ICT department within CNRS was established in 2000. Regarding financing, the government provided approximately EUR 20 million for the creation of three national venture capital funds for specific sectors (biotechnology, information and communication technologies). Public capital venture and seed capital funds provided an initial budget of EUR 44 million.

To promote entrepreneurship, such policies are introduced: business angel aid for R&D projects conducted by young innovative firms and reduced tax rates. A special corporate form exists for venture capital firms (*societes de capital a risqué*, SCR) which exempt them from corporate income tax (French Ministry of Research and New Technologies 2004: 17-34). The dynamic framework, however, indicates that state's initiative and coordinating policies facilitate economic actors to cooperate with each other. Now France has a leadership in designing European promotion for ICT with ESPRIT (European Strategic Programme for Research and Development in Information and Technology).

Korea's success story in the ICT sector through balanced policy for venture firms as well as existing *chaebols* such as Samsung also demonstrates the pitfalls of the VoC framework. In regard to government's initiative/coordinating policies for ICT venture industry, this paper analyses 3 elements: creating venture industry, stimulating existing *chaebols*, and building financial resources. Not until the implementation of the 1997 Special Law on the

promotion of venture firms, did venture firms exist in Korea. Although Five-Year Economic Development Plan has not been renewed since 1997, individual 5-Year Plans of each ministry have been launched: 5-Year Plan for Vitalization of Venture Companies and 5-Year Plan for Science and Technology Development under coordination of Ministry of Planning and Budget. The number of venture firms grew from 304 in 1998 to 6,004 in 2000 (Lee and Kim 2000). The product of these venture firms accounted for about 4.8% of GDP in 1999, which will increase up to 18% of GDP according to government plan (Lee and Kim 2000).

In order to stimulate existing large firms, the Korean government introduces 'effective competition' whereby it guarantees the least market share of new comers, which could promote competition between large incumbents and venture-like new comers. The success of the ICT sector, such as Internet, mobile handset, and e-commerce, is greatly attributable to the policy of effective competition. Broadband service has been promulgated by Hanaro Telecom. The competition between three mobile telephone services providers has contributed to the proliferation of handset manufacturing *chaebols* such as Samsung and LG. Hanaro Telecom has only 5% market share in local telephone services the third mobile telecommunication providers has about 15% market share. Without government's effective competition policy, they might have disappeared in the market. Now they are on the verge of black sheet. Finally, KOSDAQ, codified in the Securities and Exchange Act in 1997, has grown up to rank 21st in volume of global stock markets in 2004. The majority of the firms listed on KOSDAQ are those which started as small start-ups (Lee and Kim 2000). Public funds can invest in venture industry directly up to 10% of their funds. Or they can do indirectly through SME investment funds, new technology

investment funds or Korean venture investment funds.

IV. Conclusion

This paper argues that it is institutional set-ups that make contextual differences in each country, as the VoC framework explains: Korea's patrimonial economy and France's *dirigiste* model. However, it is not the firm, but the state that coordinates the institutional set-ups. France is laggard in the ICT sector, but it is now emerging as a leader of the ICT sector. We cannot understand this restructuring process with the firm-centred framework. The case of venture industry shows that firms are inappropriate to assume the conflict-adjusting role.

Even if the French telecommunication industry has enjoyed high revenue, it failed to develop new markets. Some argues that it is attributable to the national characteristics such as different financial structure, weak entrepreneurship, and language problem (Benghozi and Licoppe 2003). However, the main factor is the firm without motivation to a new investment (no initiative) and the government without focus on the ICT sector (no coordination). We cannot explain why firms before 1999 did not work appropriately in the French ICT sector whereby the government provides solution for the deadlock situation. Therefore we find that the firm neither is a persuasive unit of analysis in understanding current economic restructuring nor have initiative/coordinates ability in restructuring.

The governments of France and Korea have initiatives in responding to the external challenge that resulted in economic reform. Given all the fronts, such as regulation reform, financial subsidy, and elite networks, we can say that the firms' role did

not take over the leadership function in restructuring economy, even though we paid attention to the fact that large firms could play creative roles at action levels. Regulatory reforms neither reduce the government's initiative and coordinating behaviour, nor strengthen the market-led economy. The decreasing number of regulations meant only the end of the old system. In recent years, the total number of regulations has increased.

The increasing number of new regulations means that the new system needs institutional supports. During the IMF system that lasted 3 years from 1997, Korea enjoyed rapid economic resurgence by promoting competitive environments with regulatory reform. A close look, however, makes you somewhat perplexing to know that the number of regulations nevertheless increased even under the IMF system. What made the number of regulations increase, even though they decreased in first 3 years under the same government? It's because the IMF control only adjusted the economic players' roles, but did not create completely irreversible roles. I call this adjustment process the state-coordinating system from the state-controlled one, under which the initiative of strategic agenda is still in the hands of the state. This paper does not regard some players as subordinate to others nor place one actor as omnipotent. Instead, it shows the sustained tendency of the state intervention even under globalisation, and illustrates that it is too early to put focus on the firm.

1. Further Research

The discussion so far implies that government's influence in an economic system is still valid and even desirable, and that its scope has extended beyond the dichotomous perception. In the course, we have clearly understood that an economic system needs

restructuring to adapt to the new global economy. Ironically, the closer we get to markets, the more we need coordination through the state. It is labelled as the initiative-cooperating system departing from the state-controlled one, in which the relationships between the state and markets are no longer patrimonial. Instead, the scope to which the government's influence could reach gets broader.

However, this model has to be applied to other cases from other regions in order to acquire theoretical appropriateness. Even the Korean case was not tested with measurable variables. A statistical test of the initiative-cooperating model will provide theoretical accuracy for the framework. We also need to apply this model beyond the *dirigiste* economies. A comparative analysis of France and Germany will provide an interesting outcome, since Germany does not have strong state-led legacy in economic activities.

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국가와 산업간의 동태적 관계: 프랑스와 한국의 비교분석

유 태 영*

논문초록

세계화 환경 하에서 경제적 효율성을 분석하는 틀은 기업을 중심으로 두어야 한다는 VoC 모형의 주장과는 달리, 본 논문은 국가가 여전히 주도하고 조정하는 능력을 통하여 경제행위의 효율성을 향상시킬 수 있음을 제안한다. 우리는 작업장의 조직, 연구개발 체계, 그리고 기업 지배구조 개혁과 같은 영역에서 보여지는 것과 같이, 경제개혁은 여전히 정부가 주도하고 조정하고 있으며, 프랑스의 국가소유 그리고 한국의 가족경영과 같은 조직전통이 유지되고 있음을 보여준다. 프랑스와 한국의 벤처산업이 그 예가 될 수 있다.

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핵심 주제어 : 국가, 자본주의 다양성, 조직전통, 프랑스, 한국

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