The post-developmental state
Economic and social changes since 1997

Jamie Doucette

Introduction

This chapter discusses some of the broad economic and social changes that have shaped South Korea’s political economy since the 1997–98 Asian financial crisis. In short, that crisis led to expanded social inequality and diminished economic growth: consequences that have challenged policy makers, intellectuals, and social movements ever since. By extension, these changes have influenced the very understanding of Korea’s pattern of economic development. Once thought to be a pristine example of a ‘developmental state,’ the supposed virtues of the high-debt, state-led model were called into question following the economic crisis. State-business networks were reconfigured to promote greater transparency. New debt limits and other restrictions were placed on Korea’s large family-led conglomerates chaebol (chaebol) to improve their corporate governance. Free-market oriented policies were embraced as an alternative to developmentalism. However, in light of job insecurity and a less rapid pace of growth following neoliberal restructuring, the vices and virtues of the so-called ‘Korean model’ remain the subject of considerable public debate across the political spectrum, with some arguing for a return to the ‘golden days’ of the high-debt model and others for continued market-oriented reform as potential solutions for restoring economic growth and addressing social inequality. For many, the global economic downturn since 2008 has only made the need for solutions to these problems all the more pressing.

Using the 1997–98 financial crisis as its point of departure, the aim of this chapter is to survey some of these broad changes that have occurred since 1997 with a focus on the challenges they have raised for the task of addressing inequality and expanding social welfare. The crisis was a watershed moment that crystallized a pattern of growing economic inequality, of which there are several causes: the growth of the irregular and migrant workforce; the expansion of speculative forms of investment in credit markets, stocks, and real estate; and diminished rates of economic growth stand out as the most salient. As discussed below, the source of these changes have much to do with the particular ways in which the institutions once known as Korea’s ‘developmental state’ – particularly, its financial and labour market policies, but also policies towards migration and urban and regional planning, among others – have been restructured at
the behest of both domestic and international actors. Judged on the aforementioned policy areas alone, the period since 1997 is best considered to be an era of the post-developmental state, as many, though not all, of the institutions associated with the high-debt and high-growth model of the Park Chung-hee (Pak Chung-hui) period have been restructured.

This transition does not mean, however, that the Korean state suddenly ceased to play an important role in shaping economic growth. Indeed, it still continues to regulate the economy – and, in some areas, its capacities to do so have been considerably enhanced – and even attempts to develop strategic sectors. My point is simply that the institutions associated with the high-debt model at its peak have been gradually, and in some cases abruptly, transformed. Furthermore, this has not in all cases been a negative process either, as this transformation has intersected with changes brought about through the ongoing process of democratization: including the expansion of labour and civil rights and the election of liberal administrations with an oppositional legacy tied to the democracy movements of the 1970s and 1980s.¹

Nonetheless, economic restructuring has raised difficult, strategic challenges for the actors involved, particularly the liberal administrations of Kim Dae-jung (Kim Tae-jung) and Roh Moo-hyun (No Mu-hyon) that emerged from the broader constellation of forces that composed Korea’s democracy movements of the 1970s and 80s. These presidents promised to satisfy long-standing demands for greater social welfare and distribution but found themselves in the unenviable situation of having to steer the Korean economy through financial crises while also pursuing democratic reforms. Unfortunately, the embrace of free-market-oriented economic policies by these liberal governments exacerbated existing social inequalities. This led to popular complaints and voter dissatisfaction, and opened up democratic reformers associated with the liberal administrations to charges, from the left, of not living up to the legacy of the democracy movement and, from the right, of letting the economy falter under their watch, creating a ‘lost decade’ of economic growth.

As a consequence of both the financial crisis and the expanding inequality that followed, the high-growth Park Chung-hee years have become, for many, an object of nostalgia. By depicting the Park era as a golden age of full employment, conservative political forces have sought to capitalize not only on their traditional support base among rural and regionalist voters but also to speak to an increasingly insecure generation of urban workers. Against his liberal predecessors, conservative president Lee Myung-bak (Yi Myŏng-bak) – who earned the nickname ‘the bulldozer’ for his tenure as CEO of Hyundai Construction – organized his 2007 election campaign on the promise of a return to the high-growth economic policies of the Park era. However, the global economic crisis and Lee’s pro-chaebol policies failed to revive the high-growth model. Instead, Lee’s administration became mired in controversy, much of it directed at his ecologically destructive and poorly constructed Four Major Rivers Restoration Project. While Lee’s successor, Park Geun-hye (Pak Kŭn-hye), daughter of former dictator Park Chung-hee, distanced herself from Lee’s discredited policies during the 2012 presidential elections. Her advisors depicted Park as a leader whose lineage positioned her as the appropriate figure to foster economic revival. Nonetheless, Park’s policies to date have done little to distinguish her from previous conservative administrations despite earlier promises to promote ‘economic democratization’ and foster a ‘creative economy’.

Such rose-coloured views of the high-growth Park era, and prescriptions for a return to it, are not limited to the right, however. Prominent left-liberal reformers, such as the globally recognized development economist Ha-joon Chang have also praised the institutions of rapid development created by Park Chung-hee and advocated that progressives take a lesson from Park’s playbook in order to foster a Korean-style welfare state: one that would affirm the strategic economic planning of the Park Chung-hee period, but without endorsing the repression of
labour and civil rights. In advance of the 2012 election, Chang and his colleagues (H.J. Chang et al. 2012) advocated that a grand compromise be made between the state and the chaebol, whereby the state would guarantee the management rights of chaebol families – most of whom control their firms indirectly through dense, and often illegal, patterns of cross-shareholding among affiliates – in return for an agreement on increased taxation, investment, and job creation. However, these calls were drowned out by a growing consensus among moderate conservatives and liberal-progressives that ‘economic democracy’ based on principles of a ‘fair market economy’ that limits the power of the chaebol should be the guiding principle of future economic reform. As mentioned above, Park Geun-hye used this slogan during the election, but revised her promises to expand social welfare and quickly reverted to a pro-business platform after the election. The debate thus continues over how to reform the Korean economy and along what lines.

This chapter is organized as follows. In the next two sections, I outline some of the major changes to Korea’s political economy since 1997: the first to the financial market and the second to the labour market. In the third section, I discuss some of the more recent proposals that have been made surrounding solutions to the problem of social inequality and the resilient power of the chaebol in the Korean economy.

The end of the high-debt model

While scholars dispute the cause of the 1997–98 Asian financial crisis – some see it as the result of ‘crony capitalism’ while others see it as the effect of premature liberalization, and some both – there is a general consensus among them that the crisis spelled the end of Korea’s high-debt model of development (Hart-Landsberg 2001). For decades prior to the crisis, the Korean state supported this model by effectively bank-rolling Korea’s large family-led conglomerates through a variety of means, including export subsidies, policy-driven loans geared towards industrial upgrading and expanding the export market, and tight regulation of import and export licenses. These policies produced the highly diversified, but also highly indebted, industrial conglomerates known as the chaebol. Scholars associated with the theory of the developmental state praised these industrial policies for undergirding the chaebol growth and allowing Korea to rapidly catch up with industrialized countries. They argued that Korea’s embrace of pro-active, industrial policy showed that there was an alternative to the laissez-faire approach to development being promoted under the Washington Consensus and that countries that eschewed that model may even develop at a more rapid pace. Despite the high debt levels associated with this strategy, if combined with appropriate, long-range planning to promote export-led growth, this formula could lead to rapid growth and industrial upgrading (cf. S.I. Jeong 2004).

While scholars debated the virtues of this model throughout the 1990s and into the present, the financial and industrial policies that had been identified by scholars of Korea’s ‘developmental state’ had already been gradually rolled back in advance of the 1997 financial crisis. The reform process had begun slowly at the end of the Park Chung-hee period (Y.T. Kim 1999) as state planners became worried about the power of Korea’s large conglomerates and sought to disperse their ownership so as to avoid an over-concentration of economic power. These early efforts at dispersing ownership and, by extension, encouraging markets for corporate control were largely unsuccessful. After all, as development state theorists have argued, Korea’s industrial policies were primarily oriented towards bolstering the monopoly power of the chaebol, provided they conform to a variety of performance-based targets aimed at expanding their productive capacity and exports to foreign markets. Whether or not there was a competitive market for the ownership of these firms (or corporate governance laws thoroughly enforced) was a second-order concern.
provided that the chaebol met their targets and did not seek to compete with the ruling bloc for political power.

These early efforts at financial reform continued slowly throughout 1980s. However, the restructuring of Korea’s strategic industrial and financial policies did not pick up the pace until the government of Roh Tae-woo (who revived efforts to reduce cross-shareholding among the chaebol) before accelerating considerably with the announcement of Kim Young-sam’s (Kim Yong-sam) globalization (segyehwa) drive in the early 1990s. This drive aimed to foster more competitive market conditions by continuing to phase out policy loans and by liberalizing external borrowing on short-term credit markets. While these reforms were intended to strengthen competition by promoting a more competitive financial market, at the same time they exposed the Korean economy to new risks by weakening the ability of the Korean government to regulate the investments made by the conglomerates. The chaebol used this opportunity to finance new investments using credit obtained through poorly regulated financial intermediaries such as non-bank financial institutions (NBFIs) that borrowed extensively on foreign short-term credit markets.

In summary, while much had changed before 1997, the highly indebted chaebol remained a constant. When the collapse of the Thai baht in 1997 caused international lenders to call in the short-term credit they had advanced to Korean firms and financial institutions, the NBFIs became rapidly insolvent, leading to a run on the Korean won and exacerbating the effects of the crisis. Due to exposure to international lenders’ rapidly changing short-term interest rates, many of the chaebol were exposed to the credit crunch induced by the 1997–98 financial crisis, and several of the top thirty business groups went bankrupt. The government was forced to intervene. As a consequence, the high-debt model would not survive the crisis.

For many democratic reformers, liberal economists and international observers this was a good thing. They had long been critical of the behaviour of the chaebol in the Korean economy and the ways in which the government had allowed economic power to be concentrated in their hands. For instance, the IMF and other international lenders saw the high debt levels (the debt-equity ratio of the top thirty chaebol reached over 400 per cent by 1996, the year preceding the crisis) and low profitability of the chaebol as a moral hazard: a symptom of an underlying ‘crony capitalism’ (Kang 2002). This attitude was not unique to the IMF, however, but was shared by many domestic political forces as well. Prominent liberal economists regarded the crisis as the symptom of an underlying ‘virus’ whose source was the market-distorting power of the chaebol (Jang 2001: 73). They argued that the chaebol had used their murky corporate structure and control over affiliates to distort market competition, exploit subcontractors, and collude with corrupt politicians.

This critical view of the chaebol was commensurate with Kim Dae-jung’s long promoted vision of a ‘mass participatory economy’. Under this vision, Kim promoted a liberal market economy model supported by an active civil society that, together with the government, would check the power of the chaebol and introduce greater transparency and accountability into economic planning (D.J. Kim 1985). Thus, for both Kim and many liberal activists in civil society organizations, the promotion of the market economy was seen as a way to dislodge the nexus between the state and domestic capital that had informed the old regime and re-embed the economy in more transparent relations.

Chaebol reform was also strongly supported by the minority shareholder movement. This movement that had grown throughout the mid-to-late 1990s and sought to challenge the concentration of economic power in the hands of the chaebol through direct participation in the management of chaebol affiliates (Kalinowski 2008). The movement targeted the dense, and in most cases illegal, cross-shareholding (sanghoch’ulcha) practices through which chaebol families maintained managerial control over their affiliate firms, despite the fact they only held a fraction
of total company stock. This dense cross-shareholding structure allowed ruling families to exercise managerial discretion over all their affiliates; hence, critics complained that this structure usurped the opportunities of minority shareholders and constituted a moral hazard. They were particularly critical of the illegal transfers of controlling shares and other assets used to pass down ownership of the firm to the younger generation. Finally, chaebol reformers saw the high level of diversification within chaebol groups as a vice – an “octopus-like strategy of engaging in all businesses from A to Z” (Jang 2001: 75) – one that led to overreach and was reliant on excessive debt financing that eroded profitability. These reasons combined provided a strong rationale for eliminating cross-shareholding between affiliates and treating them as independent firms so that an allegedly more transparent and accountable management culture could be inculcated. In the words of one key economic reformer who led the shareholder rights movement, the existing system’s “entrenchment of authority, coupled with the lack of transparency, means it is impossible to make chaebol management accountable for failure or inefficiency” (Jang 2001: 82).

For many economic reform activists and liberal politicians, the financial crisis thus represented a strategic opportunity to restructure the chaebol. As prominent Seoul National University economist Chung Un-chan put it at the time, “If such a great opportunity is squandered, we may not see another chance for a long time” (Chung 1999: 29). While not all were in favour of the IMF’s treatment regime of high interest rates, privatization, and austerity, many Korean government officials enthusiastically embraced the IMF treatment a necessary tool for change. Some of Kim Dae-jung’s core advisors, such as Bank of Korea governor Chon Ch’ol-hwan (Chŏn Ch’ŏl-hwan) and Chief Economic Advisor Kim Young-kum, went above and beyond the IMF prescriptions and carried out supplementary reforms aimed at increasing transparency and expanding foreign ownership of Korean firms. In the wake of the crisis, strict debt limits were placed on the chaebol, and new regulations on cross-shareholding, succession, and diversification introduced (see K.W. Kim 2004 for an account of corporate governance reforms in particular). Distressed banks and financial institutions were privatized, and many purchased by foreign investors.

After the initial recovery from the crisis, the state’s financial support of the chaebol was considerably rolled back. Instead of policy loans and performance targets for the chaebol, in the years after the crisis, the Kim and Roh governments sought to attract foreign capital to stimulate new investment. They did so in a variety of ways that included the negotiation of several bilateral free trade agreements (the most controversial of which was the Korea-US FTA); the rolling out of several new special economic zones that offered foreign firms generous exceptions on local taxes and regulations; and through the construction of an ‘international financial center’ in Youido that aimed to turn Korea into a regional ‘hub’ for financial services. However, none of these policies led to considerable foreign investment beyond the initial rush to purchase distressed assets in the wake of the crisis. And despite their impressive architecture and urban planning, neither the hub nor the zone policies have attracted the levels of foreign firms and investment they were originally intended to attract.

Labouring in lean times

The punishment for the alleged ‘sins’ of the chaebol leading up to the crisis were not solely experienced by the ruling families themselves. The five biggest firms used the crisis to grow even larger. Instead, Korean workers were quickly and deeply affected as numerous firms faced bankruptcy when they could not service the rapidly expanding interest payments on their debt. For the most part, labour was asked to bear the majority of the burden of the transformation of Korean capitalism towards a more market-oriented model. A famous protest slogan from
that period read: “I.M.F. = I’m fired.” The slogan captured the predicament of workers as firm after firm went bankrupt or was restructured, leading to layoffs, dismissals, and retrenchment. For many white- and blue-collar workers, these feelings of uncertainty and lack of security have continued to be felt since the crisis due to the proliferation of irregular or ‘non-regular’ forms of work – contract, temporary, day-shift, or other forms of insecure employment – that were institutionalized in the aftermath of the crisis. As S.J. Jeong (2007) has shown, the exploitation of labour through increased working hours and lower pay helped steer the recovery from the crisis and have, by and large, made Korean capitalism more profitable for capital since the crisis – leading to a recovery in the manufacturing rate of profit and even higher rates of profit for the financial sector. Despite this outcome, however, this increased exploitation did not lead to major increases in domestic investment, economic growth, or considerable expansion in welfare.

It is perhaps one of the ironies of Korean democratization that the expansion of non-regular work that followed the crisis would probably not have been possible without the existence of a social dialogue between government, business, and labour. In other words, despite the fact that it was seen as undermining democratic demands for socio-economic equality, this expansion of non-regular work was itself facilitated by a gradual democratization of the relations between labour, business, and the state, including the recognition of umbrella union federations and an expansion of collective bargaining at multiple scales. This choice of social dialogue was largely due to the political context surrounding the election of Kim Dae-jung, whose support base included not only the southwestern Honam region but also, more importantly, the civil society and social movement organizations that emerged from the democracy movement. Moreover, the expansion of labour rights and representation of working class interests in politics had long been a demand of the democracy movement, a demand that Kim could not easily betray (Gray 2009).

Kim could not fall back on the earlier, despotic modes of labour control favoured by his conservative predecessors, who had outlawed the democratic trade union movement and often moved quickly to repress strikes. Furthermore, for much of the 1990s, the democratic trade union movement had successfully contested managerial despotism at the firm level and had developed strong and independent workplace unions. Thus, instead of falling back on the coercive, and primarily enterprise-based labour relations of the developmental state era, Kim pursued national-level social dialogue to pursue a negotiated marketization of employment relations that expanded precarious work and eased redundancy, while providing for a minimal expansion of social welfare. In the midst of the crisis, the Economic and Social Development Commission (Korea’s main tripartite body) produced an agreement – though one subsequently rejected by the labour movement’s rank and file – that allowed for greater use of temporary and non-regular workers in specific sectors in exchange for expansion of social welfare and expanded coverage of the national pension and social security systems. However, for many, this nominal expansion of social security did not make up for the greater insecurity and increasing inequality caused by the crisis.

Despite these results, some scholars considered Kim’s social compromise to represent the emergence of a unique Korean or East Asian style welfare regime: an alternative to the “excessive benefits” of universal models of welfare provision in Western countries (Kim government, cited in Gray 2009: 140). For instance, Kong (2004) interprets Kim’s social compromise as an effective response to the 1997 crisis as it restored international confidence in South Korea and allowed employment to rebound by promoting a “productivist conception of welfare” that can contain social-welfare costs and offer “high labour flexibility and the employment-led (rather than redistribution-led) alleviation of poverty” (30). Thus, Korea’s short-term or ‘crisis corporatism’ was seen as an alternative to shock therapy: a more inclusive
neoliberalism pursued without the exclusion of labour. However, many observers over-emphasized the ‘inclusive’ nature of this agreement by ignoring the greater labour insecurity and poor quality employment contract it endorsed.

Criticizing the overly optimistic reception of Korean government’s welfare policies, Gray (2009) argues that Kim’s reforms established not a redistributive welfare state but a minimalist ‘workfare’ state. A number of Kim’s social assistance policies, such as his Minimum Living Standard Guarantee Programme were tied to training and community work as conditions (Kwon 2006: 732). Furthermore, the further commodification of labour that was bargained as a condition for this expansion effectively weakened labour’s bargaining power, which in turn has hampered further longer-term social partnership (cf. Gray 2009: 140–149). As casual workers are less likely to earn significant benefits under the system, which is compulsory but suffers from poor enforcement, welfare expansion has thus predominantly benefitted male and regular workers employed at large enterprises where they enjoy strong bargaining power rather than casualized, day, and self-employed workers who are known in Korea as non-regular workers.

Since 1997–98, the flexibilization and marketization of employment relations have only expanded despite the fact that the Korean Confederation Trade Unions (KCTU) pulled out of further tripartite participation in protest of the original post-crisis reforms. Non-regular employment relations soon became further institutionalized as the government sought to expand the sectors in which irregular workers could be employed or took a casual approach to labour law enforcement. In the early 2000s it announced that it would expand the number of sectors where non-regular contracts could persist, eventually passing legislation in 2007 that removed limits on the sectors that could employ non-regular workers. At present, the number of non-regular workers in the Korean economy is somewhere between 34 per cent to greater than 50 per cent depending on how one measures it.2 Even by conservative estimates, this figure does not paint a hopeful image of social mobility. That this expansion occurred and was institutionalized under the watch of the liberal administrations of Kim Dae-jung and his predecessor Roh Moo-hyun – who expanded Kim’s labour market reforms through another ‘grand social compromise’ (one signed without participation of the KCTU) in 2007 – eventually led to the loss of support for these administrations and charges that they had not lived up to the aspirations of the democracy movement (Choi 2012).

Finally, there are significant social dimensions to this expansion of non-regular work. For one, non-regular work is heavily gendered. The trans-nationalization of the Korean labour market through the expansion of foreign migrant labour and marriage migration also means that many migrants have found themselves in precarious employment relations. Jennifer J.Y. Chun (2010) argues that the situation represented by many of these workers is one of ‘legal liminality’. She notes how many of the intense labour struggles over the past 15 years have been waged around struggles over classification: whether a worker is regular or not, or even recognized as a ‘worker’ rather than a ‘contractor’; whether the organization that pays their wages is really their ‘employer’ or client; whether the workers themselves are to be accorded the same labour rights and human rights of naturalized citizens, and so on. The site of democratic labour struggle has thus dramatically shifted since the 1990s, moving from the struggle to establish independent unions to efforts to stem the expansion of non-regular work. While the large union confederations were slow to embrace the struggles of non-regular workers, they have gradually come to see such struggles as strategically important, given that the marketization of employment relations has enabled business to regain significant managerial control over workers and diminished the labour movement’s associational power, especially in smaller workplaces in which the labour movement has long had difficulty organizing.
Despite the fact that Korean workers enjoy greater collective bargaining due to democratization, the struggles of non-regular workers have often been very intense as these labour rights have been more difficult to effectively exercise. For instance, when the legislation to expand non-regular work was announced in 2003, it was followed by the protest-suicides of several unionists at large firms such as Hyundai Heavy Industries. In many cases the strikes of these workers had been ruled illegal, and unionists’ assets were taken under damage claims and provision seizures that have become a common way of dealing with strikes since then, and that impose difficult personal costs for the workers involved (Doucette 2013). Since the late 2000s the struggles of irregular workers have continued to be intense, with workers resorting to a number of often desperate tactics such as factory occupations, high altitude protests (actions such as climbing construction cranes, transmission towers, or billboards), sambo ilpae marches (three steps, one bow) and ‘Hope bus’ campaigns to bring attention to their difficult struggles. These tactics have led to some success, especially at large firms where much subcontracting has been disguised (where the parent company owns its own subcontracting firms) and thus illegal. Overall, these difficult protest strategies highlight the sense of urgency among many workers and their families that something more substantive needs to be done about the expansion of precarious work in South Korea.

From political to economic democratization

The expansion of non-regular work has significantly contributed to the expansion of inequality since the Asian financial crisis. But it is not the only source of such inequality. As discussed above, the restructuring of the labour market has been paralleled by significant financial changes. The government turned to the financial market rather than the banks as the desired source of capital for industrial investment. As part of this shift, bank’s financial resources that had been oriented toward the corporate sector in the past were reoriented to other investments, including households in the form of mortgage and consumer credit (Y.C. Park 2006). The shift has helped to fuel speculative bubbles in stock and credit markets and has contributed to significant asset price rises in urban property markets. While this shift has contributed to considerable urban development, it has also helped shape the expanding socio-economic inequality between those with property and other monetary assets and those without.

Much of this urban development has been facilitated by a historic expansion of household debt. If the period of rapid industrialization was characterized by high savings in the sense of the low debt-to-income ratios among Korean wage earners (whose savings were used to finance industrial development), the boom in urban real estate development since the early 2000s has seen the reverse. It has been the product of heavy borrowing. The high amounts of leverage involved have thus raised concerns among Korean policymakers about how sustainable this development might be, particularly since it has led to periodic crises due to the oversupply in apartments and the collapse of some of the poorly regulated financial instruments (such as the market for project finance) used to finance much of the boom in residential construction (Son 2014). This phenomenon has raised concerns that Korea might be facing its own Japanese-style bubble. Furthermore, the expansion in the underlying prices of financial assets such as stocks and real estate have not corrected for the deficiencies of the old export-oriented developmentalist model. This financial expansion has not improved domestic demand (in the form of higher wages) or led to a fairer distribution of wealth. As a consequence, the Korean economy has become more rather than less dependent on its large exporters, which raises concerns about its vulnerability to competition from emerging economies as well as from downturns in global demand, as was witnessed during the 2008 financial crisis.
The new financial geography of Korean capitalism and its existent and emergent axes of inequality between regular and non-regular workers, native and migrant workers, asset-rich and asset-poor, among others, has led to renewed debate among politicians and reformers about how to create a fairer and socially sustainable economy. As discussed above, the solution of the Lee Myung-bak government was to try to revive the old high-growth model, mainly through infrastructure spending and deregulation that benefited the chaebol. While Lee did introduce some strategic industrial policies under his ‘Green Growth’ banner, much of the energy of his “New New Deal” went towards financing poorly designed infrastructure investment such as the Four Major Rivers Project and easing restrictions on laws governing the ability of industrial groups to own financial institutions. However, these pro-business policies were not successful in reviving economic growth and alienated a number of Lee’s party’s supporters. By the time of the 2012 presidential elections, it appeared that a new approach would be necessary.

It was in this context that the major political parties embraced the slogan of ‘economic democratization’ in the lead up to the election. The moderate-conservatives who led the ruling Saenuri Party’s campaign, as well as intellectuals associated with the opposition Democratic United Party (DUP, renamed as the New Politics Alliance for Democracy after the election), proposed a range of policies aimed at addressing social polarization and the concentration of economic power in the hands of the chaebol. While both parties made promises to expand welfare spending, the predominant focus of their discourse remained focused on the chaebol and whether it was in the best interests of the Korean economy for the state to use its constitutional powers to place limits on their activities.3 Similar to the discussions surrounding the causes of the 1997 crisis, at the center of this debate was the question of what to do with the elaborate and often illegal cross-shareholding patterns of the chaebol. Policymakers in both parties advocated that further cross-shareholding be banned – while DUP reformers proposed unwinding the existing system altogether – so that a regime of ‘fair competition’ between the chaebol and non-chaebol firms could be established. The idea behind this policy being that, by extension, such reforms would help independent businesses flourish, foster job creation and prevent such practices as the exploitation of subcontractors by chaebol affiliates, illegal transfers of resources between firms, and dynastic control by the ruling family.

The emphasis put on chaebol reform as ‘economic democratization’ attracted the attention of several liberal-left critics, such as the development economist Ha-joon Chang and his associates, who complained that the market-oriented chaebol reform policies proposed under the banner of economic democracy would do little to establish a proper welfare state (their preferred form of ‘economic democracy’). Instead of restructuring the conglomerates’ cross-shareholding patterns, Chang and his associates proposed that the government pursue a different strategy of economic reform. They argued that an agreement should be made that guarantees the existing management rights of the chaebol over their affiliate firms in return for increased domestic investment, corporate taxation, and job creation. The logic behind this proposal was that if management rights were secure – making it easier for chaebol families to transfer ownership rights to the next generation and ward off speculative takeovers – the chaebol would agree to the greater taxation and investment needed to foster a Korean welfare state. Chang and his colleagues were particularly critical of fellow liberal reformers’ efforts to reform the chaebol towards Anglo-American market norms based on shareholder value. They argued that these policies promoted speculative capital at the expense of industrial capital and, by extension, denigrate the institutions of high-speed growth that were an integral feature of Korea’s developmental state model, which they tend to see in a positive light (S.E. Lee 2012). Instead of further market reform, they argued for a return of developmentalist industrial policy, control over speculative capital, and the emulation of Scandinavian-style welfare policies.
Conclusion

While Chang’s proposal’s praise of Park Chung-hee’s industrial policies and depiction of the chaebol as victims of financial capital (rather than as an active component of it) created controversy among liberal-left reformers, it was not seriously entertained during the election. Nonetheless, it is worthy of attention here, as it cast light on a persistent dilemma encountered by reformers and politicians about the legacy of Park Chung-hee’s developmental state, not to mention the difficulties involved in addressing long-standing problems associated with it such as the power of the chaebol and the lack of a more substantive social welfare system. While Park’s ‘developmental state’ was regarded as an ideal type by many scholars, it has been rarely regarded as a desirable model by democratic reformers until recently. For them, the purported meritocratic economic planning at the heart of that model was difficult to discern when viewed from the standpoint of labour and civil society that were the target of much regimentation, repression, and exploitation during the dictatorship era. Nonetheless, when prescribed as an alternative to an equally idealized free-market vision of development, it is also easy to understand how a defense of the state’s capacity to govern the market and promote economic growth appears desirable. This is the dilemma of the ‘post-developmental state’ represented by the end of the high debt model: a problem of deciding what role the government, chaebol, and formerly excluded actors such as labour and civil society should play in the development of an alternative approach to politics, economy and society.

At the heart of this challenge are legitimate concerns about the concentration of power in the hands of the chaebol and the difficult question of what constitutes a socially and economically just restructuring of the conglomerates and wider economic institutions. Merely enforcing free market norms in a technical manner risks confining the problem of unequal economic power to intra-class relations between capital holders such as majority and minority shareholders and small and large business. It does little to address the situation of labour, whose interests have remained the most marginal during the course of democratization (Choi 2012). Likewise, a reprise of industrial policy without the development of a strong countervailing force that can counter-balance state and capital also seems likely to prolong existing inequalities of power and influence. Pro-business proposals that merely protect the management rights of the chaebol face the familiar criticism that they merely put growth over distribution, the market over social justice, and capital against workers. An alternative approach that sought to develop a democratic welfare state would have to find a way to put taxation, redistribution and labour standards as the first order of concern, and by extension orient industrial policy towards providing solutions to social and environmental problems that have accompanied Korean industrialization.

So far, both the conservative and main opposition parties have only stumbled toward such solutions. While it has a broad following among workers and supporters of the democracy movement, the NPAD has had great difficulty proposing substantive alternatives to neoliberalism. Meanwhile, while Park Geun-hye’s election proposals acknowledged the need for a universal pension and welfare systems, she quickly watered down such policies. For instance, her pledge to significantly expand universal old-age pensions was reduced to a more minimal, means-tested benefit that did not sufficiently address the high levels of poverty among Korean seniors (see Klassen and Yang 2013 for analyses of Korea’s policies towards its ageing population). Meanwhile, Park’s policies for addressing Korea’s rapidly declining fertility rate – while providing some decent funding for early childhood education – have also lacked effectiveness as they have not been followed up with sufficient employment protections for female workers. Part of the problem is that Park, like her liberal predecessors, is hesitant to raise income or corporate taxes to pay for such welfare expansion. At the end of the day, it seems that a greater emphasis on
distribution over growth, and a more substantive approach towards the democratic participation of labour and other diverse political voices in the process of economic restructuring is needed. Until then, the establishment of a Korean welfare state will remain a minimalist project, and the predicament of the post-developmental state – insecure work, expanding inequality, and unequal social power – set to continue.

Glossary

Cross-shareholding (Sanghoch’ulcha): The Korean term for cross-shareholding is sanghoch’ulcha, but a more direct translation this term might be ‘reciprocal’ or ‘mutual equity investment’. Chaebol families use these cross-investments or cross-shareholding to maintain control over their conglomerate group as a whole, even though they hold a minimal amount of stock in most of the group’s affiliates: in most cases the family may own less than 5 per cent of total stock in core affiliates. The usual pattern is that the ruling family owns a large quantity of shares belonging to a non-listed, de facto holding company (e.g. Samsung Everland) that owns a high percentage of shares belonging another affiliate (e.g. Samsung Electronics) which owns shares belonging to another (e.g. Samsung Techwin), and so on. This creates a dense, interconnected web through which they maintain managerial control over the whole group.

The Four Major Rivers Restoration Project: The Four Major Rivers Restoration Project was an ambitious construction and engineering project launched in early 2009 by the administration of conservative President Lee Myung-bak. Viewed as an attempt to mediate the effects of the 2008 global downturn on the Korean economy through fiscal policy, the project involved the dredging of Korea’s four largest rivers and the construction of weirs, bikeways, and recreational facilities along each waterway. While the project purported to revitalize river ecosystems, facilitate flood management, and secure water resources, it was viewed by many as a costly project designed to reward construction firms rather than revitalize ecosystems. The hefty price tag of the project (which cost close to 20 billion US dollars), its hasty design, and lack of thorough environmental assessment were criticized by many local governments, environmental NGOs and social movements. Korea’s Bureau of Audit and Inspection also criticized the project for its poor construction and planning. River silting, leaky weirs, and algal blooms created by the project continue to raise controversy.

Korean Confederation of Trade Unions (KCTU): The Korean Confederation of Trade Unions (KCTU) is a national trade union confederation with roughly 700,000 members. Unlike its rival, the formerly pro-government and relatively pro-business Federation of Korean Trade Unions (FKTU), the KCTU was formed out of the battle for independent trade unions during the democracy movements of the 1970s and 1980s. The Great Worker Struggle that quickly followed the June Democratic Uprising of 1987 led to an increase in independent workplace organization among Korean trade unionists. In order to break away from enterprise-level corporatism that often dominates Korean labour relations and to advocate for progressive policies that benefit workers at the industrial and national scale, these unionists chose to form the KCTU in 1995. The confederation was not officially recognized as a legal worker’s organization until 1999, under the government of Kim Dae-jung.

Developmentalism: Developmentalism can be described as a political and economic ideology that prioritizes the goal of national economic development over and above redistributive policies, democratic participation, as well as liberal ideas of a free and self-regulating market.
Developmentalism prescribes that the state play a guiding role in promoting development through industrial and fiscal policies that lead to industrial upgrading and expanded market share. Critics of developmentalism point out, however, that developmentalist policies often prioritize economic growth (especially GDP growth) and the development of the forces of production over social and human development, not to mention environmental concerns associated with industrialization in general. Furthermore, the emphasis of developmentalist economic policies on elite-led planning and strategic government-business networks, and their frequent justification in terms of national security (e.g. as under the Park Chung-hee regime), raise additional concerns about the lack of democratic oversight over economic policies within developmentalist regimes.

Notes

1 While a deeper engagement with the various theories of the developmental state is beyond the scope of this chapter, further criteria for a such a transition might be made in terms of changes to the social composition of the Korean state and to changes in the ideational projects embraced by the economic bureaucracy (see Y.T. Kim 2008, 1999) for such an argument). Since the late 1990s, the assumptions of developmental theory increasingly became an object of criticism for its simplified understanding of state capacity as being autonomous from or external to social and political conflicts and for its under-theorization of class relations. Nonetheless, the idea of developmental state remains a useful heuristic description for the high growth policies of the Park Chung-hee era. For excellent conceptual critiques of developmental state theory, see D.O. Chang (2009) and H.Y. Song (2013a).

2 While the term 'non-regular worker' is not widely used outside of Korea and Japan, its usage resonates with cognate terms such as irregular work and precarious work, and encompasses forms such as casual and contingent labour, part-time work, temp or dispatch work, subcontract work, and home-based and day labourers. We might also add disguised subcontracting, precarious self-employment, ‘special’ employment, and perhaps even migrant labour to the mix (see Grubb et al. 2007, p. 76 for a good discussion of some, but not all, of the various metrics use to measure the incidence of non-regular work in South Korea).

3 Item 2 of Article 119 of the Korean constitution grants the state the ability to "regulate and coordinate economic affairs in order to maintain the balanced growth and stability of the national economy, to ensure proper distribution of income, to prevent the domination of the market and the abuse of economic power, and to democratize the economy through harmony among the economic agents.” See the Constitution of the Republic of Korea. Available online: http://korea.assembly.go.kr/res/low_01_read.jsp?boardid=1000000035 (accessed 10 January 2013).

References


