

ECONOMIC CRISIS AND RESTRUCTURING IN SOUTH KOREA

Beyond the Free Market-Statist Debate

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This paper, which examines the causes of the South Korean crisis in 1997-98 and the nature and consequences of the post-crisis restructuring process, looks critically at the neoliberal position but also at what the authors call the statist position (which celebrated and continues to defend the usefulness of industrial policy and state direction of the economy against neoliberal critics). While there are important differences between these approaches, the authors show that because both ignore the structural causes of South Korea's crisis, neither is able to explain, much less help overcome it. The paper then examines the economic, political, and social effects of the restructuring process, demonstrating how it has left the South Korean economy more dominated by foreign capital and the *chaebol*, and more dependent on exports and labor exploitation than before the crisis. As a result, South Korea appears headed for a new crisis. The authors conclude by highlighting ongoing worker resistance to the restructuring process and a movement-building strategy for advancing a worker/community-centered recovery and development program.

South Korea has long been an ideological battleground for free market and statist development advocates. For decades the battle was over competing explanations for South Korea's economic success. Those arguments ended with the crisis of 1997-98. Now the arguments mainly concern what went wrong in South Korea.

Free market economists and the International Monetary Fund (IMF) blame the recent crisis in South Korea on misguided and corrupt investment and lending decisions produced by state industrial policies geared toward the growth of big family-controlled conglomerates (known as *chaebol*). In their view,

sustained recovery requires the abandonment of nationalistic industrial policies, corporate downsizing (including the breakup of the overextended chaebol), more rigorous and open accounting practices, and a greater role for foreign capital in shaping and disciplining economic activity.¹

In contrast, statist economists highlight the successes of past government industrial policies — in particular, the development of a globally competitive manufacturing sector, the generation of rapid economic growth for several decades, and rising real wages for the majority of South Korean workers. They argue that the crisis was due more to “underregulation” than overregulation. Specifically, they point to the liberalization of the South Korean financial system in the 1990s and the abandonment of the state’s earlier policy of planning and coordinating investments. Their prescription for economic renewal is the re-regulation of the financial system (especially short-term cross-border capital flows) and the reimposition of a rational industrial policy.²

While this free-market/statist dichotomy sets the terms for public and scholarly debates over the lessons to be learned from the South Korean experience, the differences between these two approaches are not as great as commonly thought. For example, although the two sides differ on the importance and desirability of industrial policy, both embrace capitalism as the only effective means for achieving development. As a result, both largely ignore considerations of class and contradictions in their analyses of South Korean capitalism.

In this paper we offer a radically different understanding of South Korea’s past growth and recent crisis and, by extension, strategies for promoting development. While recognizing the centrality of industrial policy to South Korean growth, we believe that this policy, and the underlying state-chaebol relationship, can only be understood in class terms. Such a class perspective helps illuminate the exploitative and contradictory nature of South Korea’s growth trajectory and thus the structural causes of the 1997-98 economic collapse. In short, it reveals that South Korea is suffering a crisis that is rooted in the workings of capitalism.

It also makes clear that neither market liberalization nor reregulation can successfully promote South Korean development. Rather, what is needed is a worker/community-led socialization of the chaebol and government bodies, and the replacement of anarchic market forces with cooperative-democratic decision-making mechanisms. And, in contrast to both free market and statist perspectives that see current working-class resistance to capitalist restructuring as problematic because it disrupts their respective market-driven or technocratically planned growth strategies, we believe that such struggles represent the only way to advance this necessary process of democratic socialization.

Our analysis proceeds as follows: Section I examines the neoliberal-statist debate over industrial policy, highlighting the statist perspective. Section II offers a critical look at statist understandings of the South Korean model by showing how the country’s recent crisis was caused by internally generated contradictions. Section III scrutinizes neoliberal and statist responses to the crisis and demonstrates how neither approach is able to grasp the structural nature of South Korea’s crisis and thus offer socially useful policy advice. Sections IV and

V investigate the economic effects of the post-crisis restructuring process, explaining why it is being driven by neoliberal policies and promoting outcomes such as denationalization and the concentration and centralization of power. Section VI investigates the social impact of the restructuring process, revealing the devastating costs working people are being forced to pay as policy makers seek to restore capitalist profitability and competitiveness. The last section highlights worker resistance to neoliberal restructuring and proposes an alternative strategy for advancing a worker/community-centered recovery and development program that rejects neoliberal and statist assumptions of TINA (“there is no alternative” to capitalism).

I. The Debate over Industrial Policy

South Korea enjoyed rapid economic growth for over three decades prior to its 1997-98 crisis. The country’s real GDP grew by an average of 9 percent during the 1960s, 9.3 percent during the 1970s, and by nearly 10 percent during the 1980s and the first half of the 1990s. This performance is even more impressive in comparative terms. From 1978 to 1987, South Korea’s real GDP growth averaged 7.7 percent, compared to only 3.1 percent for Western developing countries (defined as all Western hemispheric countries other than Canada and the United States) and 2.1 percent for African countries. From 1988 through 1995, South Korean growth averaged 8.1 percent per year; in the same period, Western and African developing countries averaged only 2.4 and 2.2 percent annual growth, respectively.³

Equally significant, this growth was achieved through a massive structural transformation of the economy. The share of manufacturing in output and employment rose from only 10 percent in 1962 to well over 25 percent by the early 1990s. Commodity exports grew at an annual average rate of more than 25 percent over the same period.⁴ By 1996, South Korea ranked as the number one “supplier of computer memory chips, the second largest shipbuilder in the world, the third largest producer of semiconductors, the fourth largest maker of electronics, the fifth largest car maker, and the largest steel producer.”⁵ On the strength of this performance, South Korea went from being a “basket case” in the 1950s to a member of the Organization for Economic Cooperation and Development (OECD) in 1996.

Neoliberal economists credited the “magic of the market” for this success. For example, in a 1987 study for the Institute for International Economics, Bela Balassa and John Williamson argued that South Korea and other newly industrializing countries (NICs) in East Asia had outperformed the Latin American NICs and India because:

the scope of administrative controls was much more limited in the four East Asian NICs than in Latin America and, even more, India. In the latter case, there were pervasive controls on investment, prices, and imports, and decisions were generally made case by case, thereby creating uncertainty for business and opportunities for corruption, which has remained comparatively limited in East Asia. . . . Capital markets, too, were freer in the East Asian NICs than in Latin America and India.⁶

However, most neoliberal economists had little knowledge of the specifics of the South Korean experience. Statist economists, in particular, sought to challenge the neoliberal view by demonstrating the centrality of industrial policy to South Korea's rapid industrial transformation and growth. Their work revealed that control over the country's financial system was probably the single most important factor enabling the state to successfully direct the economy. In the words of the South Korean economist Wontack Hong:

The success of Korea's export-oriented growth owes very much to the late President Park's effort to establish an automatic loan allocation system for exporters....Under Park's regime (1961-1979), any entrepreneur could automatically attain access to short-term bank credits at subsidized interest rates without collateral by undertaking export-related activities....The efficiency of credit rationing was maintained by the efficiency of Korea's export sector.⁷

This export promotion was undertaken as part of a comprehensive effort to promote national industrial development. This effort is best illustrated by the government's mid-1970s push to establish new heavy and chemical industries for both import-substitution and export-generating purposes. Using cheap credit, the government directed investment into iron and steel, petrochemicals, electronics, machinery, and transport equipment. In exchange for achievement of export goals, the government provided numerous subsidies to its favored enterprises; prominent among them was the ability to generate a high rate of profit in a protected domestic market.

As a key part of this industrial upgrading the government determined which industries to develop and which products to produce and then selected a small number of chaebol to carry out the production. Each chaebol created numerous subsidiaries in response to government policy; although each subsidiary had its own president, they all remained operationally unified under the direction of the chair of the chaebol group. This organizational form allowed the chaebol to expand rapidly from one industry into another in response to government initiatives.

A case in point: in the early 1970s, the government pressured Hyundai into shipbuilding. Hyundai had no experience in this industry but Hyundai Shipbuilding and Heavy Industries was able to compensate for this shortcoming by drawing on the engineering and construction expertise of Hyundai Construction, the workplace organizational knowledge of Hyundai Motors, and the production control experience of Hyundai Cement. Within the unified structure of the chaebol, engineers, supervisors, managers, workers, and funds were easily transferred from one subsidiary to another as needed. Moreover, Hyundai could draw upon the profits of its more established subsidiaries to balance its early losses in shipbuilding.

Through such a process, the combined sales of the top ten chaebol relative to GNP grew from 15 percent in 1974 to over 67 percent by 1984.⁸ As Ajit Singh observed: "The Korean story of successful industrialization in the last three decades is intimately linked with the development and the success of the giant Korean corporations, the chaebols."⁹

According to statisticians, the South Korean experience offered support for a new conventional wisdom. Third world countries could grow under capitalism, but only if they had strong states to promote and direct economic activity and large, integrated conglomerates to organize the actual production. This was a far cry from the original conventional wisdom that emphasized reliance on market forces to mobilize and coordinate economic activity.

In theorizing why South Korea's industrial policy had proven so effective, some statisticians emphasized the "industrialization through learning" that took place in South Korea. Through basic education, the skillful use of imported managers and technicians, a strong negotiating stance vis-à-vis foreign corporations, and ruthless enforcement of export targets as a condition for enterprise subsidies (and, in some cases, even of continued enterprise existence), the government was said to have created an institutional environment that promoted an accumulation of individual and collective human skills in production as well as the flexibility and adaptability needed to cope with international competition and changing market opportunities. In shaping this institutional environment, the government succeeded in walking a fine line between planning and coordination on the one hand, and exposing the chaebol to domestic and international competitive pressures on the other.¹⁰

A second, related explanation stressed the non-adversarial character of government-private sector relations. With the government, banks, and chaebol functioning as a "quasi-internal organization," the government's credit-allocation policies created less conflict and less disruptive rent-seeking behavior than in other Third World countries.¹¹ Given a commonality of private- and public-sector goals (partly imposed by military power, to be sure), even corruption (under-the-table exchanges between the chaebol and government officials) was said to have been indirectly productive insofar as it helped ensure that industrial policy directives were actually carried out.¹²

Most statist economists did acknowledge that there was another, less positive, side to the South Korea's economic "miracle." After all, it was impossible to ignore either the military dictatorship that directed the growth process or the country's work-times and industrial accident rates that were among the highest in the world.

For example, years prior to the publication of her 1989 book extolling the South Korean model, Alice H. Amsden undertook a study of average rates of surplus value (roughly the value added per worker-hour divided by hourly wages) in manufacturing over the 1969-77 period. She found that South Korea's rate was more than twice India's: 465 percent compared to 244 percent. This differential was partly due to South Korea's 2,519 hours in average yearly work-time per factory operative compared to India's 2,311 — the former figure being the highest among the twenty-one countries surveyed (thirteen of which were Third World nations).¹³ However, in their eagerness to discredit neoliberalism (as opposed to capitalism), statist economists, including Amsden, eventually came to terms with this reality by arguing that continued growth would eventually create a strong middle class that would, in turn, transform South Korea into a liberal capitalist democracy.¹⁴

The growing body of statist work eventually forced neoliberals on the defensive. Pressured by Japan, which wanted to demonstrate the effectiveness of industrial policy, the World Bank agreed to undertake a study of the East Asian economic experience.¹⁵ Its 1993 report, *The East Asian Miracle*, granted that South Korea had made extensive use of industrial policy. However, it then tried to dismiss the significance of this fact by claiming that since it had proven impossible to establish “statistical linkages” between state interventions and growth, there was little reason to believe that the country’s industrial policy had been effective.¹⁶ This kind of hedging only strengthened the credibility of statist arguments.

II. Contradictions and Crisis

Statists had a far better grasp of the South Korean experience than did neoliberals. But their work also suffered from serious shortcomings that led them to confidently predict continued growth for South Korea and success for those countries willing to adopt the South Korean model. As a result, they were caught flatfooted by the country’s crisis.

Statist explanations for South Korea’s rapid industrial growth and transformation emphasized the state’s effective direction of chaebol economic activity. However, more was involved; additional factors that were downplayed included the above-noted exploitation of the country’s work force; chaebol ability to purchase Japanese technology, components, and machinery; and chaebol access to U.S. funds and markets. Also overlooked was the fact that these factors were shaped by historically specific relations of power that growth itself could change.

The highpoint for the South Korean model was 1986-89. During these years the economy recorded annual rates of growth of over 12 percent and its first trade surpluses. But, at the very moment when statist promotions of the South Korean model were receiving their most favorable response, tensions and contradictions generated by the country’s growth strategy were beginning to destroy the viability of that strategy.

The chaebol had grown increasingly powerful and were now able to take advantage of their export successes to gain independence from a weakening state. This independence allowed them to use their profits for speculative rather than productive investments. The past industrialization had also created a working class that was strong enough to directly challenge the country’s repressive labor laws and chaebol control over the workplace. A massive strike wave began in 1987 that cut into chaebol power and profits. The country’s export successes also threatened Japanese producers, leading them to withhold key inputs from chaebol exporters. And they also provoked the U.S. government to successfully demand that South Korea revalue its currency and open its markets to U.S. goods and investment.¹⁷

These developments quickly began to undermine South Korea’s export drive and chaebol profitability. The trade balance slipped back into deficit beginning in 1990; profits and domestic investment began falling. The government tried to respond to the country’s growing economic problems, but with little success.



Sam-mi Steel hunger strikers and their supporters, November 1997. “Workers, to the disappointment of both neoliberals and statist, are increasingly demonstrating their unwillingness to be sacrificed for the benefit of capitalist restructuring efforts.” (Photo: Steve Zeltzer)

It tried but failed to regain control over chaebol activity, in large part because it was now too closely tied to their fortunes. There was even less it could do to force a change in Japanese or U.S. policy. Thus, it settled on a strategy of attacking labor in hopes of stimulating a new round of chaebol productive investment. But while the working-class movement could be weakened, it could not be broken.

To make matters worse, the international environment grew increasingly hostile for South Korea throughout the 1990s. Japanese corporations, seeking to reduce trade tensions with the United States, had heavily invested in Thailand, Malaysia, and Indonesia. This allowed these Southeast Asian countries to pursue an export-led growth strategy similar to South Korea’s, but with even cheaper labor costs. China also became a major producer of exports. The result was regional over-production of cars, steel, petrochemicals, semiconductors, and consumer electronics, which drove down export prices and earnings throughout the region. South Korea’s export growth declined from 30 percent in 1995 to only 5 percent in 1996.¹⁸

In addition, U.S. policy makers took advantage of South Korea’s desire to join the OECD to press for the deregulation of South Korea’s financial system. Faced with a threatened blackball of its admission, the South Korean government agreed to open the country’s capital markets and grant domestic firms greater freedom to borrow from abroad. This, of course, contributed to a further weakening of South Korea’s planning system and encouraged greater foreign debt.¹⁹

South Korea began running bigger current account deficits and accumulating greater foreign debt. The current account deficit rose from \$4.5 billion in 1992 to \$8.9 billion in 1995, and then to a record \$23.7 billion in 1996. In addition, chaebol profits were forced downward: the forty-nine largest business groups recorded total profits of just \$32 million on combined sales of \$274 billion in 1996 — a return of just over 0.01 percent.²⁰ Companies sustained their operations only by going deeper into debt. And thanks to the liberalization in

foreign borrowing, an increasing percentage of funds came from foreign lenders. By 1997, South Korea's foreign debt totaled over \$160 billion dollars, with approximately \$70 billion due for repayment in less than a year.

Several large and important companies finally went bankrupt in the first half of 1997. As the financial crisis swept through Southeast Asia, foreign investors became increasingly concerned about the creditworthiness of South Korean firms and banks and the adequacy of the central bank's foreign exchange holdings. They responded by selling stocks and bonds and calling in loans. The government raised interest rates and cut spending, but it was unable to halt the run on the won; by mid-November, South Korea's currency was in free fall and the country was headed into recession.

The crisis brought an abrupt reversal of growth, skyrocketing enterprise and household bankruptcies, uncollectible debts, and a sharp increase in unemployment and poverty. Two World Bank economists sum up the wreckage as follows:

As a result of this crisis, Korea experienced the harshest economic recession of its entire post-war history. Industrial production dropped by 12 per cent between August 1997 and August 1998, while business investment decreased by 28.3 per cent in the third quarter of 1998 when compared to the same period of the previous year. Corporate bankruptcies reached an unrecorded high of 3,197 firms during December of 1997 [compared with a monthly average of 965 during 1996]. Layoffs were extensive, leading to 7.4 per cent unemployment in August 1998.²¹

III. Neoliberal and Statist Responses to the Crisis

The crisis surprised neoliberals, as well as statist, but they were faster off the mark with an explanation. Despite having praised South Korea for its free-market policies, they quickly blamed the crisis on "crony capitalism." Statists, unable or unwilling to recognize the weaknesses in their approach and thus the structural nature of the South Korean crisis, remained determined to defend the South Korean model of capitalist development from its neoliberal critics.

Neoliberals argue that it was misguided and corrupt industrial policies that caused the 1997-98 crisis. But, as Stephan Haggard observes, the connection "appears weak" insofar as "industrial policy in Korea peaked during the Heavy and Chemical Industry Plan of the late 1970s and was gradually dismantled over the 1980s and 1990s as the country liberalized." Although it is true that the government still "played a direct role in bank financing of a number of large (and dubious) private projects through the state-owned Korean Development Bank," this is a thin reed on which to build an explanation of the crisis.²²

Neoliberals also argue that foreign financial investors were fooled by the incomplete or misleading accounting practices of both chaebol firms and the Korean banks operating as conduits to the chaebol. When the international financial community became aware of the true balance sheet situation, it rapidly withdrew its funds, triggering the crisis. But this argument begs the question of why foreign investors would pour money into an economy the particulars of which they had no hard information on — and why South Korea should further

open itself to such questionable decision-making in the wake of the crisis, as suggested by neoliberals. There is certainly no evidence to support John Cathie's claim that "a more liberalized Korea would have weathered the financial problems in the region, and at a lower economic and social cost, than the present financial and economic structure will be able to do."²³

The statisticians are right to point out that it makes more sense to pin the crisis on underregulation, not overregulation. While neoliberals blame the explosion of bad domestic and external debts on government interference and corrupt accounting practices, the statisticians point to the series of financial deregulation measures implemented throughout the 1990s. Beginning in 1991, interest rates were gradually liberalized until, by 1997, only demand-deposit rates were not market-determined. In 1993, the government announced that it would terminate its policy loan program (the sectoral targeting of credit) by 1997. Bank decisions on capital, branching, and dividend payments were deregulated in 1994, and on deposit and loan maturities in 1996.

The years 1990 to 1995 also saw a significant loosening of government controls over the allocation of foreign exchange. As a result, the links between foreign exchange transactions and government-approved non-financial activities (trade or production) were considerably loosened. The domestic stock market was opened to foreign investors in 1992 (albeit with ownership ceilings), and foreigners were allowed into domestic (private and government) bond markets in 1994. Most crucially, foreign currency loans to domestic borrowers were allowed without prior government approval beginning in 1995.²⁴

With the government abandoning its efforts to regulate foreign capital flows and direct domestic investment, especially from 1993 onward, the stage was set for the massive buildup of bad debts and overcapacity problems. From this perspective, even if shady accounting practices played a role in the crisis, they were more likely the result of rapid deregulation than government interference.

Although the statist explanation of the crisis is more accurate than the neoliberal one, it is also inadequate. For example, statisticians still refuse to systematically explore the connections between the crucial liberalization process and the structure and dynamics of the South Korean model itself. Most statisticians treat liberalization as an exogenous factor produced by a "lack of will" on the part of government officials and/or the shadowy intrigues of the "Wall Street-Treasury-IMF Complex."²⁵ But liberalization pressures are not plausibly exogenous in this context.

Domestically, liberalization pressures reflected the growing power and autonomy of the chaebol, the chaebol's desire to pursue both domestic and international profit-making opportunities unencumbered by government controls, and the concomitant rise of technocrats allied with transnational capitalism within the South Korean government. Externally, pressures from the United States and allied multilateral institutions to liberalize both finance and imports were largely a response to the successes of South Korean firms in penetrating markets in the United States and other developed countries.

Even when statisticians are willing to acknowledge some endogeneity in the liberalization process, they continue to downplay the existence of contradictions in

the South Korean growth strategy and the key role they played in generating the crisis. Ha-Joon Chang, for example, allowed that South Korea's liberalization of foreign borrowing "was not entirely a matter of policy choice, as now the biggest Korean firms and banks had sufficiently good credit ratings to gain easy access to the international financial markets." But then he obscures the significance of that insight by adding that "the Kim government relaxed controls on foreign borrowing *more than was needed*, and more importantly, failed to supervise the financial institutions involved in such borrowings adequately"²⁶ (emphasis added).

Noteworthy is Chang's allowance for some unspecified degree of liberalization as "necessary," and his appeal to credit ratings in international financial markets as a measure of this "necessity." Chang goes on to admit that liberalization reflected not just a declining "will to conduct selective industrial policy...with the rise of neoliberal ideology," but also "the growing power of the *chaebols* which wanted to be free of government regulation."²⁷ However, he makes no attempt to rethink the logic of a model that inexorably creates such disruptive power.

Similarly, Chang et al. state that "the decision to liberalize the capital account substantially was in a sense a consequence of Korea's economic success," referring among other things to "the increased credit ratings of Korean corporations and banks in the international financial markets," "continued pressure from the U.S. government to open up the financial market," as well as Korea's campaign for OECD membership, as factors influencing this decision. But, there is no follow-up to this recognition other than a brief lamentation over the dismantling of "the 'traditional' Korean economic system...by the IMF program" after "the Kim Young Sam government's liberalization drive."²⁸

Robert Wade is so desperate to deflect blame away from the statist model that he ascribes corruption and policy incoherence to an excess of democracy, asserting that

in Thailand and South Korea, new civilian democratic regimes corrupted the central policy-making technocracy and lost focus on *national* economic policies. Government-bank-firm collaboration came to be steered more by the narrow and short-term interests of shifting coalitions. Their experience is bad news for the proposition that more competitive politics yield better policies.²⁹ (emphasis in original)

True, after liberalization began credit was "allocated more on the basis of bribery and political favor" than economic performance. But not surprisingly, "due to scale economies in bribery and political influence, credit allocation has been concentrated to big business groups."³⁰ Credit policy in this period thus could be considered "democratic" in only the most plutocratic sense. In short, Wade's analysis is yet another example of the statist failure to fully recognize the growth of liberalization pressures as an endogenous dynamic of the South Korean model.

Statists have also refused to confront one of the most salient features of the South Korean growth experience: the country's long-standing trade deficit problem. Indeed, except for the brief period in the late 1980s noted above,

South Korea ran trade and current account deficits for the entire four decades prior to the crisis. These deficits largely reflect the dependence of South Korea's industrialization on imported technologies and intermediate goods, mainly from Japan. In other words, they were a structural characteristic of the South Korean model that left growth dependent on the goodwill of Japanese competitors and continued net inflows of capital.³¹

This dependence became critical beginning in the late 1980s, when the Japanese government and firms responded to South Korea's export success with actions designed to undermine South Korean exporters. For example, "in 1990, the Japanese government decided to ban the export of 200 ultra-modern technologies to Korea until 1995" to ensure that "Japanese firms will have exploited much of the market potential of the technologies."³² More generally, it is doubtful whether the official and private capital inflows (and access to U.S. markets) required to keep South Korea's export-led growth machine running could have been obtained without Korea's key position in the cold war environment. This reality casts serious doubt on statist claims that the South Korean model was both sustainable and (at least in large part) replicable in other Third World countries.

This conclusion is reinforced by yet another structural aspect of South Korea's trade and payments problems: declining unit export prices and terms of trade, especially beginning in 1996. The unit export prices of South Korea's heavy and chemical industries, which produce the country's main exports, fell by 46.3 percent over the years 1996 to 1998.³³ South Korea's terms of trade fell by more than 20 percent in 1996.³⁴ This decline helps explain the ballooning of the trade deficit from \$2.9 billion in 1994 to \$15 billion in 1996. Insofar as statisticians have an explanation for this development, it is that the abandonment of industrial policies led to an unplanned buildup of excess capacity in industrial export sectors, causing overproduction and falling export prices. It is significant that the statisticians, like the neoliberals, blame overproduction problems on misguided government policies, even though they disagree on exactly how these policies were misguided.

The reality is that South Korea was not alone in facing the overproduction problems that affected all the East Asian "miracle" economies. Overproduction was, in large part, an endogenous outcome of the buildup of a regional system of export-led industrialization created largely by Japanese foreign direct investments.³⁵ As this system evolved, South Korea faced growing competition from new Southeast Asian export centers (especially Malaysia, Thailand, and Indonesia), and then China.

Making matters worse, South Korean capital was forced to increase its own foreign direct investment in the region. In some cases South Korean firms moved to maintain their ties with Japanese firms. In other cases, they moved to escape rising domestic wages in order to maintain their competitiveness relative to other regional producers. Regardless of the reason, this process promoted the hollowing out of the South Korean economy and the rapid deterioration in the country's trade balance.

Considering the statist evasion of these fundamental dynamics, it is hard to avoid the conclusion that their position is underpinned and shaped by an

uncritical acceptance of capitalism as the only viable development alternative. Indeed, most statisticians would probably admit and even proudly assert their acceptance of TINA thinking (albeit in a non-neoliberal form) as the only possible basis for any kind of progressive policy project at this point in history. Given the nature of South Korea's crisis, this perspective, as we see more fully below, seriously limits their ability to help South Korean workers evaluate existing recovery options, much less construct new ones.

IV. Post-Crisis Restructuring: Liberalization and Denationalization

Despite its failure to explain either South Korea's past growth or recent crisis, neoliberalism has been embraced (and statism rejected) by those directing South Korea's post-crisis restructuring. John Cathie offers the following description of IMF thinking:

The IMF packages have called into question the Asian model and in particular the "Korean Model." The managing director of the IMF, Michael Camdessus, urged the Koreans to start again, by abolishing the industrial conglomerates, the chaebols, which lie at the very heart of the Korean development model. Camdessus, using a literary metaphor from the Spanish poet Miquel de Unamuno (who "used his ideas as he did his boots; he wore them out and then threw them away"), urged Korea to scrap its development model and begin afresh.³⁶

Neoliberalism's triumph is largely explained by the fact that the IMF is responsive to the desires of foreign capital, and foreign capital desires South Korea's economic opening. Although the liberalization movement predates the crisis, the IMF has made good use of the latter to accelerate the former. However, as John Mathews points out, many of the IMF's reforms were actually favored by "a strong lobby within Korea that supports such liberalization and opening up of the Korean economy." This lobby — including both chaebol interests and government officials increasingly identifying with transnational capitalism rather than national development efforts — "made use of the extraordinary opportunity created by the IMF intervention to transform the Korean 'model'" in a more liberal direction.³⁷

South Korean economist Moon-Soo Kang provides a useful recounting of the first stages of the crisis-driven liberalization process:

The government's schedule of capital market liberalization has been drastically accelerated. Direct borrowings of the corporate sector and foreign equity participation have been substantially liberalized.... The new market-opening measures include a complete removal of investment ceilings and restrictions on foreign investment in the bond and equity markets. Short-term money market instruments such as certificates of deposit were also opened to foreign investment, and the money market was fully liberalized by 31 December 1998. Hostile takeovers by foreigners were allowed to encourage the development of merger and acquisition markets.... The government announced draft legislation that aims to repeal the previous Foreign Exchange Control Act and Foreign Investment and Foreign Capital Inducement Act in order to facilitate foreign direct investment and

accelerate liberalization of foreign exchange transactions. Existing regulations on land and facilities acquisition by foreigners were almost entirely repealed. The previous positive list system for businesses open to foreign entry was changed to the negative list system in May 1998.³⁸

The opening of the South Korean economy to foreign investment, combined with the devaluation of domestic enterprises and the country's desperate need for foreign exchange, had an immediate impact on foreign capital inflows — especially of the “vulture investor” variety. The magnitude of these inflows (together with the collapse of bank loans during the crisis) help explain why “stock market-financed investment in South Korea in 1998... was four times what it was in 1996, while bank-financed investment was 11 percent of its 1996 figure.”³⁹ Foreign acquisitions of domestic firms apparently accounted for the lion's share of the record \$8.9 billion in foreign direct investment (FDI) inflows into South Korea in 1998, an amount equal to more than one-third of the total for the previous thirty-five years. A new record was set the following year, as an additional \$15.5 billion flowed into the country.⁴⁰

These vulture investments have already resulted in a significant denationalization of South Korean capital. Perhaps the most important example is the South Korean auto industry, “arguably the most productive sector in the region,” which “is passing into Western hands.”⁴¹ In April 2000, the Renault company of France purchased Samsung Motors at a price tag “believed to have [been] \$340 million to \$350 million... \$100 million immediately and the rest over ten years.”⁴² Three months after entering a “strategic alliance” with Daimler-Chrysler in June 2000, Korea's biggest car company, Hyundai, agreed to Daimler's acquisition of a 9 percent ownership stake (with an additional 1 percent to follow).⁴³ Daewoo Motor Company, South Korea's second largest carmaker, remains on the selling block. In June 2000 the creditors of the



Korean Confederation of Trade Unions rally, Seoul, November 1997. In the late 1990s KCTU organized coordinated strikes and held public demonstrations involving tens of thousands of workers “to protest planned job and wage cuts as well as the privatization and denationalization of enterprises.” (Photo: Steve Zeltzer)

bankrupt Daewoo Group began talks with Ford. After Ford walked away from a preliminary \$7 billion agreement, discussions were begun with Daimler-Chrysler and Hyundai about a possible joint bid; but this also led nowhere. In October 2000, GM and Fiat were approached; it appears that they may land the company for less than half of what Ford had originally offered.⁴⁴

There have also been important foreign acquisitions in the rest of manufacturing. In 1998 Sweden's Volvo bought Samsung's construction equipment operation for \$570 million.⁴⁵ In June 1999, Philips Electronics paid \$1.6 billion for a 50 percent stake in LG-LCD, a subsidiary of LG Electronics.⁴⁶ Less than three months later, Daewoo agreed to sell its consumer electronics unit to a Beverly Hills based investment group, Walid Alomar and Associates, for \$3.2 billion.⁴⁷ In January 2001, the Ssangyong Group was forced to sell a 71 percent share of its high-tech subsidiary, Ssangyong Information and Communication, to the Carlyle Group "for at least 316.8 billion won (\$247 million) in cash up front, plus an additional 145.6 billion won later if Ssangyong Information's operating profits double."⁴⁸

According to the Ministry of Commerce, Industry and Energy, the value-added in manufacturing by 149 foreign-invested companies — those with more than half their equity owned by foreigners — rose sharply in 1999, to 21 percent of that year's national total.⁴⁹ Moreover, the South Korean government continues to seek foreign buyers for planned privatizations of state-owned corporations, including Korea Electric Power Corporation and Pohang Iron and Steel Company.

Transnational capital has also significantly increased its control over South Korea's financial sector; we mention two examples here. In September 1999, the South Korean government sold a controlling share of the previously nationalized Korea First Bank to the U.S. investment firm Newbridge Capital for \$417 million.⁵⁰ Another major bank denationalization took place in September 2000, when a "consortium led by the global investment firm the Carlyle Group and J. P. Morgan" became "the largest shareholder in South Korea's Kor Am Bank after acquiring a 40 percent stake" for approximately \$413 million. The Bank of America already held a 16.8 percent stake in Kor Am.⁵¹ The transnationalization of the South Korean economy is well under way.

V. Post-Crisis Restructuring: Concentration and Centralization of Capital

In both free market and statist discussions, liberalization and denationalization are treated as synonymous with the decline of the chaebol-industrial policy nexus and the construction of a more "open economy where transparency and accountability for the use of investment resources is market determined and where the state withdraws from interference in the economy."⁵² However, this belief that the chaebol could be simply "scrapped" — that South Korea can somehow "start over from scratch" and remold its system on a free-market basis from the bottom up — is hopelessly naïve. It ignores the massive problems that would be created by any wholesale scrapping of the chaebol and, even more importantly, the contradictions built into the crisis-restructuring process itself.

The media has focused attention on chaebol financial problems. For good reason, Daewoo has drawn the most attention. This huge multinational, which had sales of some \$60 billion, collapsed in 1999 under the weight of \$80 billion in debts. It was broken up into twelve separate businesses; Daewoo Motors, one of the twelve, is now itself bankrupt and, as described above, up for sale. Ssangyong, another chaebol, is also on the ropes. Even Hyundai faces severe financial difficulties. Although its debts total only \$30 billion, one of its affiliates — Hyundai Engineering and Construction — is in desperate financial condition.⁵³

However, while the chaebol are far weaker than they used to be, especially relative to foreign capital, they are far from disappearing from the scene. And it is state industrial policy that has come to their rescue. Fearing that the collapse of more chaebol would push the economy back into recession, the government has “veer[ed] away from painful structural reforms centered on free market principles and competition.”⁵⁴ A case in point: responding to government pressure, Hyundai’s creditors agreed in November 2000 to an additional rollover of “690 billion won (\$607.3 million) in loans until the end of the year to stave off the threat of bankruptcy” hanging over Hyundai Engineering and Construction.⁵⁵ This was the largest of 235 government-mandated credit rollovers for chaebol firms that month — measures needed to hold off the liquidation of these firms.⁵⁶ Chaebol credit rollovers were a primary factor forcing the Kim Dae Jung government to seek National Assembly approval in September 2000 for a new 50 trillion won (\$44 billion) package “to prop up domestic banks.”⁵⁷

This turned out to be just the beginning. In January 2001, the government chose six major companies that were in financial difficulty and developed a plan to save them. “Under orders from the Finance Ministry, state-run Korea Development Bank, investment trusts, and several commercial banks will spend up to \$8 billion to buy risky bonds from companies unable to repay debts due this year [2001]. The proceeds will go to wiping out loans, and the KDB will try to resell most of the bonds with government guarantees.” In addition, the government decided to launch a \$10.3 billion public works program, with Ssangyong Cement and Hyundai Engineering and Construction targeted as major beneficiaries.⁵⁸

In fact, rather than promoting a more competitive economy (in the neo-liberal sense), the crisis-restructuring process appears to be increasing the concentration and centralization of economic power in South Korea. Not surprisingly, given the unequal power structure of business built into the South Korean model, small- and medium-sized enterprises have shouldered a far bigger share of the costs of the crisis and restructuring than the big chaebol-connected firms. In particular, IMF-mandated credit-tightening caused a slew of bankruptcies among smaller enterprises, “while the giant conglomerates that dominate South Korea’s economy limp[ed] along, staving off changes that threaten[ed] their powerful, well-entrenched leaders.” Daily bankruptcies of small or mid-sized companies rose from fifty to eighty-three after the December 1997 IMF agreements, and “nearly all of the million-plus people who...lost their jobs” from December 1997 through August 1998 “were employed by small companies, not by the top thirty conglomerates, or *chaebol*.”⁵⁹

The Korean Stock Exchange estimates that small- and medium-sized firms listed on the exchange (defined as those not affiliated with the chaebol, and together comprising 85 percent of 459 companies surveyed) *lost* a combined 2.7 trillion won (\$2.3 billion) in 1998 while the remaining (chaebol-connected) firms made a combined *profit* of 1.6 trillion won (\$1.4 billion).⁶⁰ Indeed, under the widely held belief that the chaebol were too big to fail, their equity and bond issues were still popular investments in 1998. As a result, the five biggest chaebol “raised 3.2 trillion won of equity in the first nine months, more than four times as much as in the same period a year earlier. Meanwhile, they issued 27 trillion won of bonds, three-quarters of all new issues.”⁶¹

In September 1999, the Korean Stock Exchange released a new study of stock ownership patterns based on data for ninety-one listed companies — all subsidiaries of the ten largest chaebol. The results indicated increasingly tight ownership connections among chaebol subsidiaries — the exact opposite of the “breakup” pattern desired by the IMF. For example, the average stake in a subsidiary held by another subsidiary in the same chaebol rose from 19.9 percent in January 1998 to 28.7 percent in August 1999. In addition, the average “internal shareholding” of chaebol affiliates (shares held by owners, relatives, and sister companies) rose from 27.2 percent just prior to the start of the crisis in late 1997, to 34.6 percent in August 1999. Chung Chul Hong, speaking for the exchange, interpreted the results as an indication that “through capital injections from one affiliate to another, *chaebol* group leaders have increased their control over their lineup of subsidiaries.”⁶²

These developments do not mean that the crisis and restructuring have not affected chaebol management structures and operating procedures. Ironically, the most important change may be to reduce the intense competition between the chaebol themselves that was a hallmark of South Korea’s past industrial policy regime. In a report on the “‘V Society,’ an exclusive club for the anointed heirs of family patriarchs who run the top conglomerates...and for selected successful start-ups,”



Seoul, 4 July 2001. KCTU representatives denounce the government crackdown on the democratic labor movement and the mass arrests of KCTU leaders and members. (Credit: Nodong Net/Korean LaborNet)

the *Far Eastern Economic Review* noted the group's apparent recognition of the need "to change the corporate culture" in South Korea:

That means breaking down the tribalism and excess that characterized chaebol behavior for 40 years. It means breaking into e-business, not by gobbling up smaller rivals but by helping them and profiting from their success. It means sharing business secrets and forming alliances with old enemies. In some cases it means cooperating on projects and even merging units with affiliates of rival chaebols to gain an edge in the global marketplace.⁶³

While it is certainly too soon to predict whether such initiatives will produce fundamental changes in relations between the chaebol and thus the structure of the South Korean economy, one thing remains clear: neoliberal policies have not led to a more decentralized distribution of economic power. The *Far Eastern Economic Review* leaves no doubt that power remains highly concentrated in much the same hands as before:

In some ways, however, V Society fits snugly into the old world. It's a rarified inner circle, reflecting the cozy ties between various elites that contributed to the economy's downfall in 1997. Meetings are held in a 700-square-metre rented space in a seven-story office building, with the society's logo prominently displayed on the lobby wall. Votes to admit new members must be unanimous. If even one member objects, the applicant is rejected.⁶⁴

In short, neoliberalism stands revealed as a purely ideological construction — one as openly contradictory as the system it serves.

VI. Post-Crisis Restructuring: The Social Costs

The social costs associated with the restructuring process described above have been heavy and largely paid by working people. For example, South Korean firms have been rapidly replacing regular full-time workers with contingent labor. As the *Korea Herald* reports, "The number of irregular workers, which includes part-timers and short-term employees whose contracts run for a year or less, has rapidly grown since the currency crisis in 1997 sent the unemployment rate to a record high.... As of June [2000], irregular workers made up 53 percent of the nation's 13.3 million paid workers."⁶⁵

This growing declassification of jobs to irregular status has tended to distort much of the published data on working-class conditions thereby giving a highly misleading picture of the restructuring's social costs. An example: government data shows a rapid recovery in full-time workers' wages since the crisis. But this improvement is far less significant given the rapid fall in full-time work. Similarly, government statistics show a large decline in the official unemployment rate from its crisis peak. But this decline is deceiving, since part-time workers are counted as fully employed even though most work fewer hours than "regular" workers and are desperate for full-time work. Also, the official unemployment rate would be much higher if it included those who have stopped looking for work out of despair.⁶⁶

The fact that the official data on average wages and unemployment understate the human costs of the crisis is clear from the surge in suicides and homelessness since 1997 — much of which involves elderly people who do not want to burden their economically strapped children and grandchildren. In 1998, the measured suicide rate for South Koreans sixty years of age or more was twenty per 100,000, almost three times the rate of ten years ago.⁶⁷ Seoul's 150 government shelters do not begin to provide adequate space for the more than 10,000 homeless now roaming its streets in a daily struggle for physical survival. Many more casual laborers share cramped rented quarters that absorb most of their meager wages.⁶⁸

These labor market trends have also contributed to a widening gap between rich and poor. Over the years 1970 to 1997, the country's Gini index held steady at 0.283. It jumped to 0.316 in 1998, and then to 0.321 in 1999, where it remained during the first half of 2000.⁶⁹ This development is reflected in people's own self-assessment of their declining social position: "Those who think of themselves as middle class decreased from 63.7 percent prior to the crisis to 48.8 percent in 1998, and declined further in 1999 to 38.4 percent. At the same time, those who think of themselves as lower-income increased from 50.4 percent in 1998 to 61.3 percent in 1999."⁷⁰

This outcome is not accidental. It is the result of capital's desire for greater "labor flexibility" to solve its problems of profitability and competitiveness. And, it has been the state that has actively managed and enforced this class-biased distribution of costs. Moreover just as with liberalization of finance and trade, the state's actions cannot simply be understood as the result of a capitulation to IMF demands for a new labor policy. A case in point is the labor law adopted by the National Assembly in March 1997 that featured a sweeping



Seoul, 4 July 2001. A line of police confronts demonstrating KCTU labor activists. "[W]ithout a counter-vision [to neoliberalism-statism] supported by a majority of working people, the labor movement will be forced to continue its largely defensive battle against government and IMF initiatives — a battle it is not likely to win." (Credit: Nodong Net/Korean LaborNet. Courtesy: Myoung Joon Kim)

“flexibilization” of labor-management relations. Measures included the legalization of layoffs, allowance for extended daily work-times, prohibition of wildcat strikes, and the right to use substitute workers during union strikes.⁷¹

The passage of this law eight months prior to the eruption of the crisis helps explain why South Korean officials had no problem accepting a measure “easing restrictions in the labor market over redundancies (to enable businesses to move from one industry to another)” in the December 1997 IMF agreements. As a matter of fact, insiders to the negotiations have reported that South Korea, not the IMF, suggested the labor-flexibility measure.⁷² Both private business and the government have taken full advantage of these legal sanctions to impose the wage cuts, layoffs, and wholesale conversion of jobs from full-time and permanent to part-time and contingent status, as highlighted above.

The state’s role in this exploitative capital-restructuring dynamic has not been limited to legislative actions. It has also engaged in the violent repression of workers’ resistance. The government’s spy networks and wiretaps enable it to launch preemptive strikes against workers’ organizations — such as when the police conducted a sneak attack against striking workers at the Lotte Hotel on 29 June 2000, tear-gassing and savagely beating the unionists including one pregnant worker, who suffered a miscarriage, before dragging some one thousand demonstrators off to jail.⁷³

Similarly, the government has refused to allow Daewoo’s workers an opportunity to mobilize public support for a more worker/community-oriented restructuring of Daewoo’s auto subsidiary. On 10 April 2000, “The government issued a strong warning against auto workers who were on their fourth day of strikes to protest a proposed sale of the Daewoo Motor Company to a foreign buyer”; the government said it would “sternly deal with illegal strikes related to the sale of Daewoo Motor.”⁷⁴ The threat was backed up with a police raid “in which 20 labor activists were arrested.”⁷⁵

Increasingly desperate to sell the company to a foreign buyer, South Korean authorities are determined to gain union acceptance of mass layoffs. Indeed, by November 2000, Daewoo Motor’s creditors were refusing to provide the fresh loans needed to keep the company running — unless, that is, “the carmaker’s union accepted a plan to cut wages and lay off as many as 3,500 workers, or one-third of its domestic work force.”⁷⁶ The government, domestic creditors, and the international business press all vilified the Daewoo workers for their unwillingness to shoulder their rightful share of the costs of a painful but “unavoidable” restructuring.

As the *New York Times* put it: “Resistance by labor unions is seen as a major obstacle to South Korea’s efforts to liquidate or sell debt-laden businesses, a move that is crucial to restoring foreign investor confidence in the economy.”⁷⁷ The *Times* barely paused to note that the Daewoo workers had not been paid two months’ back wages, and that the payment of these back wages was the union’s sole condition for entering serious negotiations over the terms of restructuring. Instead, the main emphasis was on the inevitability of mass layoffs, given that such “reorganization” was “demanded by potential foreign investors, including G.M.”⁷⁸

It is important to point out that statisticians have generally been hostile to worker attempts to find alternatives to neoliberal restructuring. Indeed, they have generally supported the neoliberal view that working-class opposition to “labor market flexibility” is a major obstacle to successful restructuring. This, for example, is Ha-Joon Chang’s view, although he dresses it up with utopian appeals for non-existent capital-labor collaboration:

Making redundancy easier by changing the labor laws may actually be desirable, if combined with well-managed unemployment insurance program and retraining schemes, as the current system of quasi-lifetime employment and company-based welfare provision tends to favor the workers in the large firms. But, this requires sea changes in the Korean attitudes and institutions regarding job security, taxation and the welfare state, corporate recruitment and pay structure, and industrial training — something that cannot be achieved without a careful consensus-building process and a well-designed program for institutional reform.⁷⁹

So much for the neoliberal-statist dichotomy. Both sides see only one answer to the current crisis: capitalist profitability and competitiveness must be restored and the working class must bear the costs.

VII. Beyond TINA: Future Struggles

After declining by 6.7 percent in 1998, South Korea’s economy grew by 10.7 percent in 1999 and approximately 9 percent in 2000. Both neoliberal and statist economists were quick to declare an end to the nation’s economic troubles. Neoliberals claimed that the turnaround was due to the effectiveness of their restructuring efforts; statisticians claimed it proved that the South Korean model was in far better shape than neoliberals would admit. However, these growth figures present a highly misleading picture of South Korea’s true economic situation.

The forces driving South Korea’s recent growth appear to be running out of steam. For example, massive inflows of foreign capital helped the country overcome its initial debt problems. A large percentage of these funds came from the \$58 billion bailout package arranged by the IMF. This source cannot easily be tapped again. Foreign direct investment provided the other significant source of foreign funds. But it is doubtful that these inflows can be sustained at recent levels. One of the most important reasons is that a lot of this investment was for mergers and acquisitions, and the best deals have already been made. There are already signs of a slowdown: cumulative foreign direct investment as of the end of November 2000 totaled \$13.70 billion, far short of government expectations of \$16 billion. Investment in November itself was \$1.54 billion, 50.5 percent lower than the total in the same month in the previous year.⁸⁰

Exports have also been critical to South Korea’s recovery. The country’s export drive was initially aided by a sharp currency decline. That currency advantage has been lessened. Even more importantly, South Korea’s exports have become increasingly limited to a few information technology products, and these goods remain subject to fierce regional competition. As a result, South Korea’s exporters are facing a new profit squeeze. The Korea International Trade Association export profitability index in 1999 was 15.1 percent lower than in 1998 and

9.0 percent lower than in 1997. And, the index continued to fall in 2000.⁸¹

Equally serious, South Korean export growth remains heavily dependent on U.S. market conditions. But the U.S. economy — and the American demand for information technology products — is rapidly slowing. South Korean forecasters have lowered their predictions for growth in 2001 to approximately 4 percent, less than half the rate in 2000.

If the U.S. economy actually falls into recession, things could get much worse. “Samsung Securities estimates that 30 percent of listed nonfinancial companies don’t earn enough profit, even in a healthy economy, to cover interest payments. Net profits of the top five companies were 79 percent of total corporate profits in the third quarter [of 2000]. That means that the big guns make enough to cover interest and shed debt, but that many second- and third-tier companies are as highly leveraged as ever.”⁸² Banks are already limiting credit to struggling companies. A decline in export earnings could push many into bankruptcy, perhaps pushing South Korea back into outright recession. And if working people find social conditions harsh when the economy is growing over 9 percent a year, one can only guess how bad conditions will become with a sharp slowdown in growth.

Workers, to the disappointment of both neoliberals and statist, are increasingly demonstrating their unwillingness to be sacrificed for the benefit of capitalist restructuring efforts. Even the *Wall Street Journal* has noticed the “recent surge of labor disputes and strikes in Korea.” Noting with alarm that “labor unions are stepping up their fight against corporate restructuring,” the article concluded: “These days...workers appear less willing to accept economic reform efforts.”⁸³

In May 1998, for example, the Korean Confederation of Trade Unions (KCTU) organized a wave of coordinated strikes, involving roughly 120,000 workers, to protest planned job and wage cuts as well as the privatization and denationalization of enterprises. The KCTU followed this up with a series of rolling strikes and public demonstrations, each involving tens of thousands of workers, in late 1998 and throughout the first half of 1999.

As has often been the case historically, women workers have been an active if not leading force in the recent struggles of South Korean workers. In August 1999, “a group of women formed the country’s first women’s union...and have their hands full since female employees are among the hardest hit by South Korea’s economic woes.” Women workers tended to be the first laid off during the 1997-98 crisis, and they remain concentrated in smaller enterprises and “temporary” jobs. In addition, they have borne an inordinate share of job losses associated with the movement of light-industrial export production to lower wage areas in Southeast Asia and China. Accordingly, “the Women’s Trade Union aims to be a forum for all women workers, including those who have lost their jobs and with that, their involvement in union activities. This is significant since Korean law bars the unemployed from joining a union.”⁸⁴

When considering which workers are most likely to show a high degree of combativeness during periods of economic crisis and heightened job-insecurity, bankers and brokers are not the ones who first come to mind. Yet some of

the strongest worker resistance to capitalist restructuring in South Korea has been in the financial sector. On 4 July 2000, 90 percent of the 65,000 bank workers belonging to the Korean Federation of Bank and Financial Labor Unions voted to set a strike deadline for 11 July in order to protest government restructuring plans calling for a merger of three state-owned banks and for major layoffs. The strike ended after only one day, when the government agreed to suspend its merger plan.⁸⁵

Perhaps the most encouraging development in the post-crisis class struggle has been the growing organization and militancy of contingent (or “irregular”) workers, often in cooperation with regular full-timers. Strikes by “irregular workers have occurred at a dozen workplaces” in South Korea, “with participants demanding an upgrade in their status to protect them from various forms of discrimination, including low pay and job insecurity. . . . Trade unions at these firms are also demanding that short-term employees be allowed to unionize.”⁸⁶

A particularly crucial action was the summer 2000 sit-in strike by the Lotte Hotel Union. This strike was successfully concluded on 21 August when, after “seven days of heated negotiations, the management finally agreed to the union’s demands for leniency for those who participated in the strike, a 10 percent pay raise and the extension of the retirement age to fifty-six. Most importantly, management gave the nod to the union’s call for all contract and part-time workers to be granted regular staff status after three years of employment.”⁸⁷ To achieve these gains, the Lotte workers had to go through a two-month period during which management refused to negotiate (following a sham process of government “arbitration”), as well as a violent attack by police. The spirits of the Lotte workers were bolstered by rank-and-file solidarity actions, such as the fourteen-city rally on 20 July in which more than 20,000 KCTU members participated. In their defensive struggles against capitalist restructuring, South Korean workers have demonstrated a great class consciousness and fighting spirit. Indeed, their efforts have prevented the full implementation of labor flexibilization and enterprise-reorganization measures approved in the wake of the crisis. However, defensive struggles alone, no matter how valiant and militant, will not help workers overcome the negative effects of existing restructuring dynamics.

It is in this context of the need for a new vision and strategy for social transformation that statist thinking most clearly demonstrates its bankruptcy. South Korean workers are opposed to neoliberalism because its policy agenda is destructive of their working and living conditions. Statists claim to offer an alternative to neoliberalism but, as we have seen, it is a limited alternative that is unable to help workers shift their country’s economic development onto a more worker/community-oriented path. Unfortunately, too many labor leaders and activists have not yet grasped the limits of, and thus remain politically trapped by, the neoliberal-statist debate.⁸⁸ They need to move beyond questions of whether the chaebol and industrial policy are good or bad to see that what is needed is the creation of a new political economy that is not bound by the class contradictory nature of capitalism.

This is no simple task. Nonetheless, without a counter-vision supported by a majority of working people, the labor movement will be forced to continue

its largely defensive battle against government and IMF initiatives — a battle it is not likely to win. Therefore, if the KCTU is to help South Korean workers successfully challenge the ongoing transnationalization of the South Korean economy, it must find ways to help rebuild a broad-based left movement within the country and promote greater regional and global labor solidarity.⁸⁹

As a first step in this direction, the KCTU should encourage left-oriented activists from the labor, urban poor peoples', farmers', and NGO movements to come together and hammer out a shared understanding of current economic and political dynamics. To be economically accurate and politically resonant, this shared understanding must go beyond the currently dominant tendency to simply blame the chaebol, neoliberalism, or both, without directly addressing the fundamental class character of the crisis-restructuring process.⁹⁰ Hopefully the arguments and analysis presented in this paper can provide some background for the necessary discussions.

Given a shared perspective on crisis and restructuring, the next step should be the formulation of a progressive program of action. Such a program can help cement a broad, working-class-centered, social alliance and provide a vehicle for popular organizing. The goals of such a program would likely include strengthening popular resistance to neoliberal reforms; building new organizational mechanisms to promote greater popular education, mobilization, and participation in political and economic decision making; and a reorientation of economic activity away from exporting toward meeting domestic needs in an ecologically sensitive and technologically sustainable manner. Such a broad-based socialist action program should also provide a framework within which the KCTU and its member unions could engage and strengthen ties with the unorganized and unemployed.

Finally, the KCTU and other worker-community organizations should step up their efforts to build solidarity with their counterparts in other countries, inside and outside East Asia. Given the regional nature of the accumulation process in East Asia, and the crucial role of this regionalization in South Korea's economic crisis and restructuring, coordinated struggles are bound to become more central to national organizing efforts. South Korean attempts at radical transformation are bound to gain credibility when supported by complementary efforts in other countries, especially those in the region. The objective conditions for regional solidarity have certainly been enhanced by the crisis, as workers in Japan, South Korea, Thailand, Malaysia, and Indonesia face growing hardships as a result of similar (and in many cases the same) dynamics of competition and accumulation.⁹¹ And, just as the working class must move beyond the free market-statist dichotomies afflicting mainstream national policy debates, it must also develop class-informed visions of regional development counterpoised to the regional integration schemes proposed (always in top-down fashion, with no allowance for worker/community input) by both free market and statist economists.⁹²

We recognize that what we are advocating will not produce a quick fix for South Korea's economic and social problems. Its strength is that while building unity for resistance to capitalist restructuring and competitive pressures, it also

lays necessary groundwork for the long-term struggle for socialism. The outcome of this struggle obviously has significance far beyond South Korea. It is therefore crucial that activist-intellectuals worldwide learn more about the South Korean experience and find ways of engaging with, and offering support to, South Korean social movements. Only in this way can we hope to create development visions and programs that contribute to the movement toward a new economic system centered on human needs instead of profitability and mutually destructive competition.

Notes

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9. Singh, "Savings, Investment and the Corporation in the East Asian Miracle," 124.
10. Amsden, *Asia's Next Giant*, chapters 1-9. For the balance between competition and regulation, see *ibid.*, 129-30, 151-52; Alice H. Amsden and Ajit Singh, "The Optimal Degree of Competition and Dynamic Efficiency in Japan and Korea,"

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 25. Amsden and Euh, "Behind Korea's Plunge"; Wade and Veneroso, "The Asian Crisis."
 26. Chang, "Korea: The Misunderstood Crisis," 1558.
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1999. For the differential impact of the crisis on women workers, see Stephanie Seguino, "The Roots of the Asian Crisis: A Story of Export-Led Growth and Liberalized Capital Flows," in *Political Economy and Contemporary Capitalism: Radical Perspectives on Economic Theory and Policy*, ed. Ron Baiman, Heather Boushey, and Dawn Saunders (Armonk, N.Y.: M. E. Sharpe, 2000), 225-35.
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 88. While we believe that the statist-neoliberal dichotomy defines the limits for most development and policy debates outside of, as well as within, Korea, some Koreans claim that this dichotomy does not accurately capture current Korean realities. They argue that the terms of policy debate in Korea are best captured by a dichotomy defined according to whether one thinks the primary causes of the crisis were internal or external. However, this new formulation generally leads to the same political understandings and choices highlighted in this paper. For example, those who hold the "internal" crisis view ("blame the chaebols and/or cronyism") tend to see IMF-mandated reforms as progressive, and thus endorse (implicitly or explicitly) the basic neoliberal policy orientation. Conversely, those who hold the "external" crisis view ("blame the IMF and the United States") tend to view the statist model as sound (or at least not fundamentally contradictory) and thus advocate at least some elements of the statist position.
 89. For more detail see Burkett and Hart-Landsberg, *Development, Crisis, and Class Struggle*, chapter 14. In highlighting these challenges we do not mean to claim any originality in their formulation. Our understanding of the South Korean situation has been strongly influenced by the writings and activities of many South Korean activists. Not surprisingly, activists continue to reevaluate possibilities and are engaged in intense debates over strategy. Our intent is to generate further thought, discussion, and debate among those forces (within as well as outside South Korea) that share our general political perspective.
 90. For a useful survey and critique of alternative views of the crisis on the South Korean left, see Seongjin Jeong and Jo-Young Shin, "Debates on the Economic Crisis within the Korean Left," *Rethinking Marxism* 11, no. 2 (spring 1999): 85-97.
 91. For further discussion of this point, see Hart-Landsberg and Burkett, "Contradictions of Capitalist Industrialization in East Asia"; and Burkett and Hart-Landsberg, *Development, Crisis, and Class Struggle*.
 92. See, for example, the exchange between the neoliberal C. Fred Bergsten and statist economists Robert Wade and Frank Veneroso, over the relative merits of the forum for Asia-Pacific Economic Cooperation (APEC) and a new Asian Monetary Fund (AMF) as a framework for resolving the region's debt and trade problems: "Two Views on Asia," *Economist*, 7 November 1998, 19-22.



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