

IMF'S RESTRUCTURING, DEVELOPMENT STRATEGY, AND LABOR REALIGNMENT IN SOUTH KOREA*

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This study addresses the impact of the changing nature of the development strategy of the state on labor. It is concerned with the political economy of market-oriented structural reform on the labor. The paper is composed of three sections. The first part provides an overview of basic characteristics of the development strategy during the last three decades that have been responsible for both the economic boom and the economic crisis in South Korea. Part Two examines the new character of state-capital-labor relationship in terms of the neo-liberal restructuring of the current regime and the characteristics of South Korean labor, with special attention to the Tripartite Commission. The final part predicts a new industrial relationship based on the characteristics of three players in industrial relationship: government, management and labor, specifically based on their intentions and capacities.

INTRODUCTION

Economic crisis often changes not only economic but social and political structures as well. The South Korean economic crisis of 1997 brought many changes. The impact of the crisis on labor is among the most controversial of these changes. Some predicted that the crisis would facilitate a compromise between workers and management, leading to industrial peace and increased workers participation in management and government policy making (Kim, 1999; Choe, 1998a). However, others argued that the crisis would only strengthen management and would be detrimental to the power of labor and lower the labor standards (Rho, 1999; Lim 1999). A transition in power coincided with the crisis. It is argued that the new regime that appeared just after the crisis is the first full civilian government since 1960 and that is relatively progressive. Under President Kim Dae Jung, the role of

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the government is changing but the direction of that change leaves room for discussion and debate. This paper attempts to show how changes in the developmental strategy of the state following the crisis influenced labor in South Korea.

The economic policy of the new government toward the crisis is closely related to the new labor policy that will change the future of industrial relationships in South Korea. In turn, current government policy is based on understanding the causes of the crisis. The Korean government may agree with those who blame the flight of foreign capital as a source of the crisis (e.g., Wade and Veneroso, 1998). Asian countries arguably opened their financial markets excessively following the precipitous liberalization that allowed the large scale free movement of speculative capital. However, the Kim regime agrees more with those who have criticized misguided government interventions that led to inefficiency and lack of transparency in corporate management (e.g., Hart-Lansberg, 1998). According to this argument, Asian countries are notorious for the business-government nexus in which government cronies give preferential treatment to business in return for political kickbacks.

Under the auspices of the International Monetary Fund, South Korea has undergone a process of structural reform for the last two years.¹ As a matter of fact, the Kim Dae Jung regime has instituted noteworthy changes in the financial, corporate, employment, and public sectors in order to revive the nation's crippled economy. Wide consensus exists among concerned scholars and policy makers about the necessity of structural reform coping with the economic crisis. However, there are divergent and conflicting diagnoses concerning the direction and means of structural reforms. Many critics argue that the reform policies of the Kim Dae Jung regime, imposed through IMF conditionality, would not guarantee a reversal of the current crisis (Lee, 1998; Kim and Park, 1998; Lim, 1998).² These policy recommendations have received wide criticism, even those suggested by the IMF (Sachs, 1998; Feldstein, 1998).

President Kim's new labor policy has received skeptical evaluation even outside of the problems in the development strategy. In the process of

¹Structural reform, 'adjustment', and 'stabilization' are used interchangeably in the development literature. We refer to structural reform as the total overhaul of the institutional framework of a given country's development strategy. Adjustment and stabilization are considered revisions of macroeconomic coordination. (see Nelson, 1990.)

²Many developing countries have adopted IMF's structural adjustment programs of one variety or another. The effectiveness is, however, not clear in most of Latin American, African countries, as well as in the former Eastern European countries and CIS (especially, Russia). See Edwards (1995), Grindle (1996), and Dasgupta (1998).

restructuring, many labor-related laws have been revised to loosen job security, resulting in massive unemployment. Labor, once supportive of governmental reform, became confrontational and attempted several general strikes. Even management expressed their dismay with the current reform in labor issues and temporarily walked away from the national bargaining table, the Tripartite Commission. Government policy, however, is not fully developed yet and needs more observation to ascertain its future direction.

This study addresses the impact of the changing nature of the development strategy of the state on labor. It is concerned with the political economy of market-oriented structural reform on the labor. The paper is composed of three sections. The first part provides an overview of basic characteristics of the development strategy during the last three decades that have been responsible for both the economic boom and the economic crisis in South Korea. Part Two examines the new character of state-capital-labor relationship in terms of the neo-liberal restructuring of the current regime and the characteristics of South Korean labor, with special attention to the Tripartite Commission. The final part predicts a new industrial relationship based on the characteristics of three players in industrial relationship: government, management and labor, specifically based on their intentions and capacities.

DYNAMICS AND CONTRADICTIONS OF STATE-LED, CHAEBOL-CENTERED, AND FOREIGN-DEPENDENT DEVELOPMENT STRATEGIES

According to Johnson, East Asia was formerly a 'high-growth system' in the world. This developmental miracle led some scholars to view East Asia as a new candidate for modernity, following the Western prototype (Berger, 1988; Tiryakian, 1990). The success of East Asian development has even been met with a 'left liberal consensus' (Hart-Landsberg and Burkett, 1996), a rare agreement among Third World scholars. It is important to note, however, that the capitalist development experience of the region is too divergent for a single model of development. In fact, there are wide variations overweigh the convergence of the development experiences of Japan as an initiator, the Four Dragons of South Korea, Taiwan, Singapore and Hong Kong as a first generation of followers, and the Five Tigers of Thailand, Malaysia, Indonesia, the Philippines and Vietnam as a second generation of followers.

In explaining South Korean development, competing theoretical perspectives have vied with one another for the status of a hegemonic paradigm; neoclassical market theory (World Bank, 1993), developmental state model

(Amsden, 1989; Wade, 1990), Confucian capitalism thesis (Yu, 1997), and new institutional analysis (Moon and Prasad, 1994; Kang, 1995; Evans, 1995), etc. South Korea has achieved remarkable capitalist transformation. With the exception of other Newly Industrializing Countries (NICs) no other country can match her vigorous industrialization (NICs). South Korea transformed itself from a peripheral to a semi-peripheral position in the international stratification system, poised to join the ranks of the advanced core countries. She has realized in about thirty years what advanced Western core countries had taken two centuries to achieve. To understand this kind of 'compressed development,' we need to spell out the basic characteristics of development strategies over the past four decades.

Following Gereffi's formulation, we define development strategy as a set of government policies that shape a country's relationship to the global economy, including domestic mobilization and allocation of resources among industrial sectors and social groups. This notion of development strategy can link policies and development in such a way as to shed light on a country's relationship to international markets and resources and on its decisions about domestic economic growth and equity. A multitude of internal and external determinants shape development strategy in a given country: natural resource endowment, world-system context, geopolitical condition, transnational linkage, political ideology, social coalition, cultural disposition, and so on (Gereffi, 1990: 22-23).³

Since the early 1960s, South Korea has pursued a series of development strategies at varying points in time. Basically, she has attempted to promote capitalist industrialization through a strategy of 'promotion by invitation' (Wallerstein, 1979: 76-83). By collaborating with foreign capital, she sought to take advantage of international market expansion. While possibly able to be launched effectively on a weak industrial base, this strategy is very susceptible to international economic fluctuations. In fact, South Korea has to date proven weak in absorbing such external shocks as international stagflation, oil crises, business fluctuation, and capital flows. Against this background, South Korea has pursued a development strategy that is mainly state-led, *chaebol*-centered, and foreign-dependent.

(1) The state has been a key actor, determining development policies from above based on state-guided capitalism. It is a planner, a mobilizer, and an executor in the capital accumulation process. It has been directly and indi-

³A detailed typology of development strategy can be found in Bradford, Jr. (1990). He adds market and planning to trade orientation, thereby going beyond the dichotomy of inward-and outward-looking and outward-looking development strategy.

rectly involved in the economy by such dirigistic means as legislation and regulation. Government bureaucracy, with its relative autonomy from society has provided institutional measures for the effective implementation of various policies. Not long ago, the entrepreneurial role of the state coincided with a supporting role for private sector. The relationship between government and business has changed gradually such that the former's dominance over the latter has diminished. Effective means of control over business has been achieved through credit rationing, market protection, and tax exemption. Following IMF conditionality, however, the present regime is now trying to reframe business, particularly *chaebols*, to trim their debt-to-equity ratios below 200 percent, adopt more transparent management, and terminate cross-payment guarantees and unfair trading between subsidiaries.

(2) The state has chosen capital rather than labor as a major coalitional partner. In particular, it has favored *chaebols*⁴ for rapid growth. In order to promote international competitiveness, it has adopted a financial repression *cum* concentration policy favoring big business at the expense of small and medium business. The economy has been polarized, leaving a wide discrepancy between *chaebols* and small and medium sized companies. The total capital of the top thirty *chaebols* represents fifty-eight percent of the assets owned by 110,000 companies. Their concentration in the value-added manufacturing sector has increased from below twenty percent in the mid-1970s to over forty percent in the mid-1990s. It cannot be denied that *chaebols* have taken the initiative in the process of capital accumulation on the basis of economies of scale; nor can it be denied that their excessive borrowing from home and abroad contributed substantially to the economic crisis. *Chaebols* are now in the throes of remaking through the 'big deal' programs for the five top conglomerates and through 'workout' programs for the other mid-size conglomerates.⁵

(3) South Korea has launched an outward-looking development strategy. Export-oriented industrialization (EOI) is a mainstay of the outward-looking development strategy, with an import-substituting industrialization (ISI)

⁴*Chaebol* refers to the conglomerated business group. It is synonymous with the Japanese *zaibatsu* (財閥) pronounced in Korean. The official dividing line between *chaebol* and non-*chaebol* is determined by the total assets of subsidiary companies, that is, US \$500 million. It is important to point out that the owners of *chaebols* yield a total control over their companies with twenty percent of total shares by the so-called 'cross-holding of shares'.

⁵The so-called 'big deal' programs are aimed at an exchange of major companies among *chaebols* to avoid overlapping and excessive investment, while 'workout' programs are designed to enhance the value of ailing companies.

as a supplement to the export push.⁶ Given the state of meager natural resource, scarce capital stock, large labor force, and limited scale of economy, the country has adopted the outward-looking development strategy as the engine of growth. The country has enjoyed accelerating exports of manufactured goods during the periods of global economic expansion. In promoting rapid growth, however, she has been highly dependent on foreign resources in term of capital, raw materials, market and technology. In particular, South Korea has induced foreign capital, mostly in the form of public and commercial loans from international lending agencies and private banking institutions. Direct foreign investment constituted a small share of these capital inflows. The dependent nature of such capitalist development leaves the strategy vulnerable to recurring trade deficits, balance of payments problems, and foreign debt crises.

Table 1 shows the general trend of capitalist dependent development. South Korea has achieved considerably high and uninterrupted economic growth. Rapid industrialization has been accompanied by steady increases in secondary and tertiary sector outputs in inverse proportion to that of agriculture. The country has become an industrial and information driven society. With the exception of a few years, however, exports have always lagged behind imports, leading to a chronic debt burden. South Korea currently ranks fifth in the world in terms of foreign debt. The ratio of foreign debt to GNP has increased steadily, reaching 47.5 percent in 1998. The country has recently improved its financial position, with current usable foreign reserves of \$80 billion, compared to \$4 billion at the peak of the 1997 economic crisis. The ratio of debt service payments to exports of goods and services increased from 9.0 percent in 1995 to 18.9 percent in 1999, but remained below the internationally accepted level of 20 percent. Squeezed in a competitive nutcracker, South Korea's economic condition is jeopardized by its position between such developed economies of advanced technology, as Japan and the low-labor costs of such emerging economies as China. A pattern of exports indeed reveals that South Korean trade with developed countries has been deficit-ridden, while its trade with developing nations has maintained a balance of surplus. This trend means that the country has already lost the competitive edge of cost efficiency and technological development in its major export goods. It should also be noted that

⁶The country has gone through a primary ISI stage in the 1950s, primary EOI stage in the 1960s, secondary ISI and secondary EOI since the early 1970s. Here the labor-intensive manufacturing of non-durable consumer goods applies to primary ISI or EOI, while technology-intensive manufacturing of durable consumer goods and capital goods is applicable to secondary ISI or EOI (see Gereffi and Wyman, 1989).

TABLE 1. SELECTED SOCIAL AND ECONOMIC INDICATORS, 1950-1999

	1950	1955	1960	1965	1970	1975	1980	1985	1990	1995	1996	1997	1998	1999 ¹⁾
GNP(Billion \$) ²⁾	1.4	1.4	1.9	3.0	8.1	20.9	60.6	91.1	251.8	488.1	518.3	474.0	313.0	402.1
GNP per capita(\$)	67	65	79	105	253	594	1,597	2,242	5,883	10,823	11,380	10,307	6,742	8,581
Components of GDP (%)														
Agriculture	47.3	44.5	36.8	38.0	26.6	24.9	14.7	12.5	8.7	6.2	5.8	5.4	4.9	5.0
Industry	10.1	12.6	15.9	20.0	22.5	27.5	29.7	30.5	29.7	29.4	28.9	28.9	31.2	32.2
Services. etc.	42.6	42.9	47.3	42.0	50.9	47.6	55.6	57.0	61.6	64.4	65.3	65.7	63.7	62.8
Employment Structure (%)														
Agriculture	n.a	n.a	63.0	58.5	50.4	45.7	34.0	24.9	17.9	12.5	11.6	11.0	12.2	11.6
Industry	n.a	n.a	8.7	10.4	14.3	19.1	22.5	24.4	27.6	23.5	22.6	21.4	19.6	22.7
Services. etc.	n.a	n.a	28.3	31.2	35.2	35.2	43.5	50.6	54.5	64.0	65.8	67.6	68.2	65.7
Trade (Billion \$)														
Exports	0.03	0.02	0.03	0.18	0.84	5.08	17.50	30.28	65.02	125.06	129.72	136.16	132.31	143.69
Imports	0.05	0.34	0.34	0.46	1.98	7.27	22.29	31.14	69.84	135.12	150.34	144.62	93.28	119.75
Trade Balance	-0.02	-0.32	-0.31	-0.28	-1.15	-2.19	-4.79	-8.85	-4.83	-10.06	-20.62	-8.45	39.03	23.94
Export & Import as % of GNP	5.7	25.7	19.5	21.3	34.8	59.1	65.7	67.4	53.6	52.6	58.3	59.2	72.1	65.5
Foreign Debt (Billion \$)														
Total	-	-	-	-	-	-	27.2	46.8	31.7	127.5	163.5	159.2	148.7	136.5
Debt Service Ratio ³⁾	-	-	-	-	-	-	19.7	27.3	10.7	9.0	9.2	10.2	20.5	18.9
Foreign Debt as % of GNP	-	-	-	-	-	-	44.9	50.9	12.6	26.0	31.7	33.6	47.5	33.9

1) Data of 1999 is estimated.

2) Before 1990, data are based on the GNP with 1990 as the base year.

3) Data is based on *Quarterly Economic Report* before 1990 and on *IMF Staff Country Report* after 1990.

Source: National Statistical Office, *Statistical Yearbook*, Seoul, 1998; Korea Development Institute, *Quarterly Statistics*, Seoul, 1999; IMF, *IMF Staff Country Report* No. 00/10, 2000.

the national debt is expected to increase from US \$57 billion in 1998 to \$180 billion by the end of this year. The public debt consisting of treasury bills and overseas borrowing amounted 33.9 percent of the GNP in 1999.

It is not easy to identify with clarity the strengths and weaknesses of the development strategy adopted by South Korea. Ironically, however, not only the 'factors of success' but 'factors of failure' have also been inherent in the development strategy itself. In essence, the South Korean boom and the South Korean crisis constitute two sides of the same coin. The market has been distorted by rent-seeking, in that *chaebols* avoid competition through monopolization and oligopolization. The developmental state is no more efficient, in that the 'embedded autonomy' of the state has been eroded by a growing government-business nexus. Clientalism and "connectionism" have become major obstacles to carrying out society-wide reforms.

Institution building for advanced, stable development has been undermined by the absence of rule of law.

NEW RELATIONSHIPS AMONG THE STATE, CAPITAL, AND LABOR

'Democracy and Market Economy' in Neo-Liberal Outlook

The Kim Dae Jung regime is the first government elected through a horizontal transfer of power, but its power base is not strong enough to push society-wide reforms. This is because the Kim regime is an outgrowth of the so-called DJP coalition between the progressive National Congress for New Politics (NCP) and the conservative United Liberal Democrats (ULB). The DJP coalition is nothing but a political collaboration of two regionally and ideologically different political forces united in support of a proposed constitutional amendment providing for a parliamentary cabinet system.⁷

It can be said that Challenge can serve both of opportunity and constraint. Coping with the economic crisis pose a major challenge to the Kim regime and many people consider the IMF bailout is the gravest national issue since the Korean War. The Kim regime must build a new system of governance and development to ensure the survival of the country into the 21st century. Emphasizing that they are two wheels of the same cart, President Kim has declared the promotion of democracy and a market economy the foremost national agenda.

The basic policy line of the Kim regime, however, is not easy to pinpoint. In an attempt to implement orthodox stabilization and structural adjustment programs, the new regime has proposed a 'democratic market economy' modeled on the German social market economy. In principle, government intervention, small government, efficiency and participation, and market mechanism are core values (Choe, 1998a),⁸ but, conflicting elements of neo-liberalism, neo-corporatism, and neo-mercantilism complicated the mix. Emphasizing market liberalization, deregulation and privatization on

⁷Despite an earlier agreement between President Kim Dae Jung and Prime Minister Kim Jong Pil not to discuss the issue of a constitutional amendment providing for a parliamentary cabinet system until the end of August, it remains a simmering source of contention, not only between the NCP and the ULB but also between the those ruling parties and the Grand National Party (GNP). The ruling NCP and its coalitional partner ULB have been changed on the issue of constitutional amendment, while the GNP has tried to widen the rift between the two ruling parties in order to weaken the coalitional ties for the victory in the National Assembly election in April, 2000.

⁸It is interesting to note that, in recent years, Blair's 'Third Way' has become popular among theoreticians of the Kim regime. There is no less skepticism about the applicability of Third Way in South Korea, let alone its reliability. Please refer to Giddens, 1998 and Blair, 1998.

one hand, the model also stresses government intervention, labor inclusion and participation on the other. This is partly due to policy incongruencies between IMF-dictated programs and the present government's policy thrusts.⁹ It is clear, however, that the overall logic of development is to open up the economy to a globalized world; South Korea is now open to a degree unprecedented in its history, as foreigners can now own companies, stocks, cash, lands, and buildings, etc. Transnational agencies are acquiring greater power over process of capital accumulation. As a matter of fact, there are serious worries as to whether the country could have fallen into a new form of dependency in the post-colonial age. It is one thing to take advantage of a globalization strategy based on national opening; it is another to preserve economic interests in the face of foreign intrusion.

The Kim regime appears to follow the American shareholder model in interest aggregation and representation. A shareholder model holds that only such entities, as owners, investors and managers, who have rights over corporate activities, are entitled to profits. With concern over short-term profit maximization, the shareholder model is mainly related to mergers and acquisitions, plant closings, downsizing, flexible labor market, insecurity, and increased inequality, etc. (Fligstein, 1996). Neo-liberalism is the guiding principle of the development strategy of the current regime. As an extension of the shareholder model, it is also well in harmony with IMF-mandated reform policy.

Shrinking Labor Power

In light of such neo-liberal economic labor market policies as loosening employment protection and German style labor incorporation lying at the base of the Tripartite Commission, labor can no longer depend on traditional rights, let alone increase them. This result stems a lack of power on the part of labor: under the new system, the labor can influence policy via Tripartite Commission, but their influence is limited, because it lacks the ability to propose viable alternative policies. Labor also lacks public support because it has not succeeded in expanding organizational and ideological advances since 1987.

Many factors have contributed to weakening the power of labor in South

⁹IMF programs have been modified several times so far, leading to hot debates concerning their adequacy among academic and policy circle. The initial programs include adoption of austere fiscal and financial policies, complete liberalization of the capital market, abolition of the import-source diversification system, and restructuring of governmental, financial, corporate and employment sectors.

Korea. Some are old and some are new. Former factors relate to the structural weakness of labor union organizations: ideological divisions among workers, enterprise unionism, low union density and unfriendly public opinions on labor. The latter are related to growing pressure for globalization on labor standards resulting from economic crises.

(1) The diverse ideologies inside labor movement (Lim and Kim, 1999; Lim, 1999) can be divided into "militant" and "cooperative" trade unionism. This polarization reflects past history. Under the strong state, labor was forced to be cooperative, but defiant and independent labor unionism existed underground. Upon the partial breakdown of government control in 1987, militant trade unions emerged to the surface and formed a de facto trade union. These "militant" unions often criticized the traditional trade union national center, FKTU (Federation of Korean Trade Unions) as a "puppet" of the state and business and refused to work with it. This conflict gave rise to a new national center, the Korean Confederation of Trade Unions (KCTU). Ideological conflicts exist even within "militant" trade unions, however. Some prefer social democratic unionism as in Western countries, particularly Sweden and Germany. Others call for pure socialist trade union ideology against the state and business. Unified efforts of FKTU and KCTU for the cause of labor have been rare and short-lived.

(2) The majority of South Korean workers are organized at the company rather than the industry level. Each company trade union is considered independent. Trade unions at the company level consume union dues for themselves and do not support such superarching organizations as the Industrial Federation of Trade Unions and the national centers. National centers and industrial unions are poorly financed¹⁰ and improperly staffed, and therefore do not have enough power to coordinate whole trade unions. Even during the general strike in 1966, the national center relied on the voluntary participation of the individual trade unions. On the surface the national center seemed to have played some role, but neither planned nor

¹⁰Less than 10 percent of the union dues are transferred to superior unions and the remainder is used for the enterprise union. In Germany, 100 percent are used by industry union and national center. In Korea, some large enterprise unions often have bigger budget than their superior industrial unions or national centers. Combined with low union density and low payment of union dues renders unions very poorly financed. As a result these organizations are understaffed and lack the power to control membership unions. Unlike unions in European industrial and national trade unions, South Korean unions do not have the power to make their own national agenda for the workers.

TABLE 2. UNIONIZATION AND LABOR DISPUTES

Year	Labor Unions			Labor Disputes		
	Wage Earners (1,000 Men)	Union Members (1,000 Men)	Unionized Rate* (%)	Number of Cases	Number of Participants (1,000 Men)	Loss of Work Days (1,000 Work Days)
1970	3,746	473	12.6	4	1	9
1975	4,751	750	15.8	52	10	14
1980	6,464	948	14.7	206	49	61
1985	8,104	1,004	12.4	265	29	64
1986	8,433	1,036	12.3	276	47	72
1987	9,191	1,267	13.8	3,749	1,262	6,947
1988	9,610	1,707	17.8	1,873	293	5,407
1989	10,389	1,932	18.6	1,616	409	6,351
1990	10,950	1,887	17.2	322	134	4,487
1991	11,349	1,803	15.9	234	175	3,271
1992	11,568	1,735	15.0	235	105	1,528
1993	11,751	1,667	14.2	144	109	1,308
1994	12,297	1,659	13.5	121	104	1,484
1995	12,736	1,615	12.7	88	50	393
1996	13,043	1,599	12.2	85	79	893
1997	13,228	1,484	11.2	78	44	445
1998	12,191	1,402	11.5	129	146	1,452

*The rate of union members among all the employed workers.

Source: Korea Labor Institute, *Labor Statistics*, Seoul, 1999.

coordinated the strike.

An incident related to the Tripartite Commission provides evidence that the national center did not play a crucial role in the strike. When union leaders at the national center made an agreement with government and business, exchanging labor market flexibility with widening workers' right to organize, some enterprise unionists demanded the revocation of the agreement and eventually dismantled the leadership of KCTU. Recently, the national center decided to hold a general strike to protest massive layoffs. It was big enterprise level unions, however, that prepared, began and ended the strike. The strike failed, and the lack of coordinating power at the national center was blamed for that failure.

(3) Union membership is decreasing, as seen in Table 2. The rate of unionization reached a peak level in 1989 with 18.6 percent, but fell rapidly thereafter to the level of 12.7 percent by 1995. Union membership grew slowly since the Korean War of 1950 until 1987. Even though labor union membership soared for a short time after the demise of the military dictatorship in

1980, when another military general took the power. In 1987, union membership witnessed an explosive increase, as the civil revolt succeeded in gaining major concessions from the military ruler, leading to massive wild cat strikes and the establishment of numerous labor unions. The problem, however, is that union density has fallen after hitting its peak in 1991. Now union membership is estimated at barely over ten percent of total waged workers. Changes in the labor law, which make the labor market more flexible by legalizing dispatched workers, will lower union density further. Although the right to organize has been extended to public workers, including teachers, increases in union membership are likely to be short-lived.

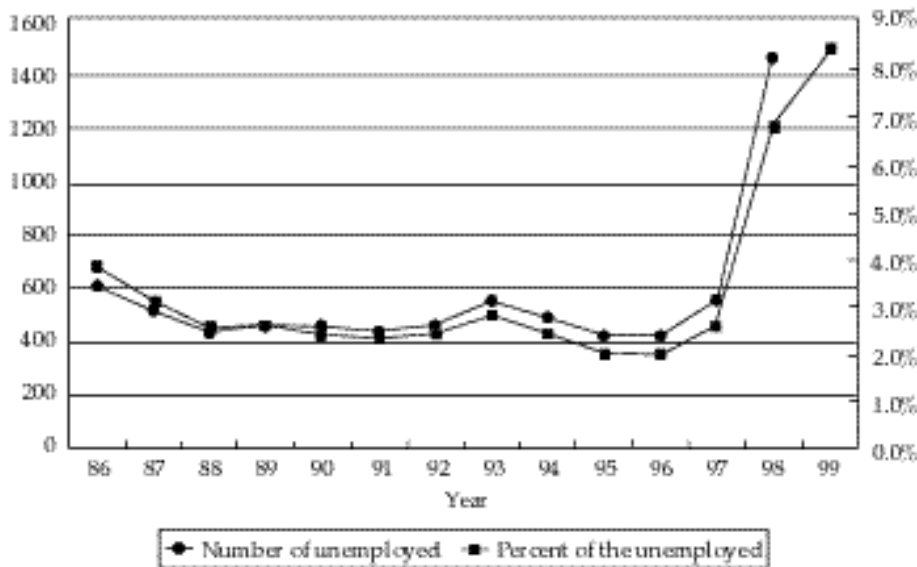
(4) Public opinion on labor is whimsical but mostly unfavorable. The root of anti-unionist sentiment originated during the Korean War (Choi, 1993). Anti-communism following the War made people skeptical of socialist ideas and less compassionate to labor unions. Government and business have utilized this sentiment successfully to crack down on defiant unions. Not only pro communist but also independent democratic labor unions were not allowed in South Korea for a long time. National and industrial level labor organizations have especially been under the control of the state. Whenever business had problems with labor, the government acted on their behalf, interfering directly in labor issues.

The growth of civil society, however, gave labor room to breathe. Upon democratization in 1987, numerous labor unions were established and most became independent from the influence of the companies and the State. Union membership soared from less than three thousand unions to nearly eight thousand in 1988. However, South Koreans began to fear that labor had gone too far, and some withdrew their support. This withdrawal of the support contributed to decreases in union density.¹¹ Union density dropped to barely over 10 percent from the nearly 19 percent in 1989. So, while the authorities broke down the labor unions, no massive public protest existed.

Public opinion on labor is capricious. When the South Korean government passed a labor law that contained clauses harmful to labor without proper democratic procedures, public opinion shifted in support of labor. When the general strike was called, not only unionist but also citizens participated. Many social movement organizations participated in the protest against the government's "abnormal" legislation of the labor law.

¹¹There are many reasons why density dropped (Park, 1996), including harsh government crack downs against labor and the continued efforts of business to control labor. The shrinking manufacturing sector also contributed to by decreasing the number of jobs in the manufacturing sector where unionized workers were concentrated.

FIGURE 1. UNEMPLOYMENT TREND



Source: National Statistical Office, *Advance Report of Employment Trend*, Seoul, 1999.

Eventually the law was revoked by the combined protest of workers and people.

Another recent twist of public opinion relates to massive layoffs resulting from the "restructuring" ordered under IMF stewardship. The sectors hit hardest by the restructuring were the unionized industries such as heavy industry, public sector and utilities. Well-organized workers on the verge of massive layoffs chose to strike, but the strike was met this time by negative public opinion. People thought that the strike would not help the economy recover, and would only hurt it further. The result was the total defeat of labor. Even though workers prepared the strike for a long time, they failed to gain public support. The strike eventually ended after two weeks without any result.

(5) Globalization is another factor that has a negative impact on the power of labor. The South Korean government must change several labor practices to meet the requirements of the IMF and other foreign countries, and many of these changes could weaken current labor unions. Labor unions have traditionally been based on regular workers. Regular workers are full time workers with lifetime employment in South Korea. Once guaranteed, lifetime employment is no longer due to changes in the law that allow easy lay-

offs. The new labor law also allows the employment of temporary workers for when labor unions are a foreign concept. Company-paid union officials will soon become illegal. These new labor laws will lower union density even further.

(6) The economic crisis has further weakened labor power. About 9 percent of those eligible to work are jobless, with unemployment numbers reaching to 1.6 million (Figure 1). To make matters worse, regular workers represent only 49.4 percent of employed persons, due to the increased reliance of businesses on dependence on daily and temporary workers. The number of regular workers is expected to decrease in the future, and they are currently for the core of organized workers. Labor unions are also threatened by stagnant wage or even decreasing wages. Constant wage increases since 1987 were acknowledged as partially contributing to the growth of labor unions. Unions at the company level draw worker support by increasing wages every year. Unions may not be able to do this anymore, however, due to the sluggish economic recovery and austerity measures adapted by companies.

Reinventing Capital and Neutralizing Labor Under A Neo-Conservative State

According to Hirshman (1973: 251), reform as an alternative to revolution has some antagonistic content, for it is deeply related to a shift in relations of power and the distribution of wealth. In a reform, it is expected that there will be winners and losers, each having conflicting interests surrounding the outcome. It goes without saying that reform is politically risky and socially costly. In this sense, South Korea is now undergoing a difficult process of reform. The Kim regime is trying to take full advantage of popular calls for reforms, but it has not succeeded in gaining wide support from the opposition party, organized labor, interest groups, and business circles. Its base of support is shallow and coupled with policy differences inherent in the DJP progressive and conservative coalition.

The current regime has emphasized economic logic rather than broad participation, apparently favoring technocratic political style reform (see Przeworski, 1991:183). South Korea is now under IMF-sponsored neo-liberal market-oriented reform geared toward economic efficiency with the objective of overcoming the current crisis within a short span of time. Reforms include such orthodox structural adjustment and stabilization program as trade liberalization, privatization of public corporations, government deregulation with a special emphasis on financial market reorganization, corpo-

rate restructuring, and labor market flexibility.¹² Earlier lines of austerity programs have later been replaced by business recovery measures, with a fear that tight fiscal and monetary policy will result in a severe recession.

In the process of market-oriented reform, the South Korean state has faced the so-called Kahler's 'orthodox paradox' (Kahler, 1990: 55). The state must increase its capacity to correct market failures, while revamping itself to function as an effective institution builder. The role of the state is strengthened in the nature of neo-conservative ideology.¹³ The historical experiences of Great Britain under Margaret Thatcher and the United States under Ronald Reagan show that neo-conservative government will dismantle Keynesian welfare states based on social democratic consensus. It must be noted that the South Korean neo-conservative state is contradictory in its simultaneous promotion of neo-liberal market reform and neo-corporatist mechanisms. On the one hand, the new labor policy of the Kim regime promotes worker participation in the policy making process. On the other hand, it weakens labor's power by introducing more flexible labor laws. The mixture is embodied in the Tripartite Commission that is the touchstone of the labor policy of the Kim regime.

The Tripartite Commission: An Assessment of 'New' Labor Policy

The Tripartite Commission is a good example of how state-labor-capital relationships will develop under the Kim regime. The new government with the support of public opinion initiated the commission to bring about the reform of the industrial relationship as a part of the overall restructuring of the Korean economy. Several attempts have been made to change the industrial relationship, but what differentiates this attempt from others is that the Kim regime is the first government in Korean history to institute a corporatist ideology of social partnership at the national level. This effort materialized in the formation of the Tripartite Commission and it became a symbol of the labor policy of the new regime. Before President Kim, labor had no channels for participation in the national policy making process as it does now in the Tripartite Commission system. Therefore, the study of the development of the commission will indicate how this new labor-state-capital alignment will develop.

The President Kim proposed the establishment of the Tripartite

¹²They do not include any measures concerning income distribution, such as tax and welfare reform.

¹³I distinguish neo-conservatism from neo-liberalism in that the former underscores tradition and authority whereas the latter emphasizes individualism and market.

Commission in January 1998. The three parties - labor, management and the government - participate in the commission to exert efforts to overcome the current economic crisis and to graduate from the IMF adjustment program at the earliest possible date, thus furthering the South Korean economy. The Tripartite Commission has acquired legal status as a permanent ad hoc presidential advisory committee. Cabinet members are required to appear and offer their views in the commission.

In the first attempt to stage a social pact among political actors, the Kim regime has created the panel as an institutional mechanism for bringing about social peace in the process of social and economic restructuring. It has dealt with various labor-related issues and agreed on many points. Based on this agreement, several labor-related laws were revised. Labor is allowed the right to participate in political activities, to raise political funds and to organize public sector workers. In return, however, they must also deal with massive unemployment due to large-scale layoff. At present, the government does not plan to scrap legalized layoffs; it does not even wish to negotiate with individual trade unions. Labor is frustrated by the State and it is suspected that the state favors chaebols in the restructuring process.

There are two views on the commission: negative and positive. The negative view that the commission is simply a means of pacifying workers who would eventually become angry in the face of the massive layoffs caused by restructuring (Lim, 1999). Antagonists from labor against the Tripartite Commission argue that employers have gained real concessions from labor, while the gains of labor are nominal at best. They argue that restrictions on public workers' right to organize and labor union's right to political action violates the ILO convention. The State should therefore abolish such restrictions not use them as means to bargain for the labor market flexibility. The positive view, however, is that the result of the commission is yet to be determined. The Tripartite Commission may open new opportunities for labor to participate in national policymaking, and that participation can guarantee the interest of labor in long run (Kim, 1999).

Labor has alternated participation in with withdrawal from the commission. Labor is currently out of the commission in protest of the State policy on restructuring. The problem is that labor has developed no clear strategy for utilizing the commission to cope with current hardships and to promote worker interest. Facing economic crisis, labor participated in the Tripartite Commission with some reluctance and made concessions to introduce more measures for labor market flexibility at the beginning. Before labor demanded revision of labor laws related to unions, the government announced that it would change them as soon as possible. Labor could not make no further

demands to increase worker interests through such measures as providing more protection to unorganized part-time and temporary workers. Instead, it stuck to the issues of protecting the employment of unionized workers. Eventually labor came to the conclusion that it had paid a high price for the concessions from management. KCTU and FKTU therefore walked out of the commission and called for a general strike to protest against the law that had allowed massive layoffs in the restructure of industry.

Several other factors underlie labor's resentment of the commission.¹⁴ One reason relates to characteristics of the exchange between labor and management. The exchange of employment stability for unionized workers for political rights or social status is difficult for the labor when leadership is weak. The exchange seems inevitable and good for the labor in a long term, but individual workers affected by the concessions of the national union will oppose the deal between the labor and the state. Therefore, Korean trade unions, lacking the ability to control their incumbents, cannot accept proposals that will raise anger from rank and file union members.

Another issue is that trade unions lack the ability to utilize the Tripartite Commission. The commission is an unprecedented opportunity for the union to participate in national policy making, and therefore labor can use the national platform to enhance worker interest and its position. Labor, however, lacks the ability to use the Commission mainly due to limited manpower and union budget. Consequently labor cannot develop serious alternatives against the State and the capital to improve their interest (Lim, 1999). Labor could not present its own agenda and alternatives in return for State concessions in the Commission. The lack of this ability partially contributed to labor's withdrawal from the Commission.

It should also be mentioned that the country is inexperienced with this method of intermediating interests. The Kim regime launched the Tripartite Commission composed of labor, business, and government on the basis of the European neo-corporatist experience.¹⁵ It remains to be seen whether

¹⁴Another official explanations for the withdrawal of labor from the commission is the destructive effect on unemployment, made possible by the agreement of the commission. Unemployment will be expected to deteriorate as a result of big deal programs, downsizing, and reduction in the public sector. Of particular importance is that the jobless are not protected by sufficient social safety net. They are discarded to the whims of the market. The present welfare scheme provides assistance to the jobless through unemployment insurance benefits. Wage moderation without welfare is not acceptable to labor. It is minimal welfare without a concept of social wage. This is why organized labor can not accept with ease the employment cuts and wage moderation promoted by the government and business.

¹⁵We can notice that South Korea's struggle to build a corporatist national negotiating body has recently decreased in importance due to radical changes in class politics and transnational

the Tripartite Commission will work smoothly as a true corporate negotiating body, since not only labor but also management does not give full credit to the workings of the panel. The conservative FKTU and the progressive KCTU withdrew from the commission in opposition to the mass layoffs initiated by management and approved by the government. The Federation of Korean Industries appears to doubt the efficacy of the panel. The Tripartite Commission is still weak in inducing consensus and agreements among the affected collectives, because of the lack of trust among the actors and the advisory nature of the panel.

CONCLUDING REMARK

The Kim regime has a strong tendency to remodel its development strategy along neo-liberal lines but it also has a corporatist tint, especially in labor policy. It seems, however, that under the current market-oriented reform, the benefactor of the change seemed to be capital, not labor. This is due to the established partnership between government and business at the exclusion of labor. Moreover, management has considerably unified its interests with the centralized leadership, while labor is severely divided by diversified political orientations in dispersed organizations. Under these circumstances, the state tends to bargain more with the capital than with the labor (see Hall, 1986: 269-70). In addition, recent reform measures are mainly geared to increase productivity at the cost of worker interest. With the state having the upper hand, reform policies will be more likely to reinvent the capital of more the independent bourgeoisie and to neutralize the power of less organized workers.

The weak labor union will have great difficulty in widening their interests against the stronger state. It will take a long time for labor to regain the power it held prior to the IMF stewardship. Although the economy has fully recovered, changed labor laws and practices will limit the power of labor. These changes will decrease the number of permanent workers and in return increase the number of part-time workers, eventually weakening the power of organized labor based on the force of permanent workers. Decreased labor power, however, has formidable power as seen in the general strike in 1998. In other words, weakened labor unions still have the potential to cripple the economy, even though they are not strong enough to

linkages. As a pioneer of corporatist theorist, Schmitter (1989:72) sees corporatism as dead: "I have become less and less concerned that corporatism ... will survive, much less be as much an imperative for the future of capitalism."

enforce their agenda.

The current regime thus tries partially to accommodate the voice of labor through the Tripartite Commission. Contrary to expectations, the labor-management-government tripartite negotiating body does not function very well in coordinating the different objectives of the participants, even though all the interest groups from labor and management, ruling and opposition parties, and state bureaucracies participate in the panel. Decisions made in the Commission seem to lean towards management. This implies that the Kim regime has a different policy compared to previous regimes, but not different enough to change the current industrial relationship. The Tripartite Commission has the potential to make a social pact but this is not realized yet. This situation is worrisome to labor, but it is still in a state of flux and labor can still participate in the national policy making process.

South Korea is moving towards a new democracy, the vitality of which depends to a significant degree on a combination of economic and political performance in the future. One interesting aspect of today's world is that democracy is spreading globally but eroding locally (Putnam, 1997: 59). This is due mainly to neo-liberal reforms that dissolve existing society into a minority of the advantaged and a majority of the disadvantaged. Democratization is a process not only of aspiration and expectation but also of despair and discouragement. New democracy can be frozen in the form of market democracy. South Korea may not be an exception, for its democracy is still incipient and inchoate. What is needed is a reorientation of the basic development strategy based on a stakeholder model from a long-term perspective. Labor policy should also be in line with strengthening the democracy, such that the participation of labor in the economic development strategy should be extended to solidify democracy and to foster a stable economic development.

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