

Globalization and Social Inequality in South Korea¹⁾

Kwang-Yeong Shin*

Abstract

This paper discusses the process of the neo-liberal globalization and its impact on social inequality in South Korea, exploring the seemingly contradictory development of market despotism on the one hand and social welfare on the other hand. The financial crisis triggered by hasty globalization of the Kim Young Sam government led to the economic crisis. The newly elected president Kim Dae Jung accepted the rescue package of international financial organization such as the IMF and the World Bank, which have played the role of preacher of Washington Consensus. As a consequence of 10 years of the neo-liberal globalization, state despotism fortified by the authoritarian developmental state was replaced by market despotism, with increasing inequality and expanding poverty. The international financial organization demanded the Korean government an introduction of new social welfare policy and an expansion of the existing welfare program to guarantee neo-liberal reform. Social welfare was considered as a political safety valve to prevent social and political crisis that might hamper the process of neo-liberal reform. Casualization of work and social polarization endanger the new democracy with the rising support of the conservative party with authoritarian legacy among those who were dismayed by the democratic government.

Introduction

While globalization has been the most popular research topic since the late 20th century, scholars have been divided with respect to the impact of globalization on the economy and society. The controversy over the effect of globalization has not dwindled away among social scientists as well as politicians yet (Ohmae 1990, 1995; Hirst and Thompson 1996; Giddens 1996; Held 1999; Stiglitz 2003). While there has been lots of critique of globalization initiated by international financial organizations such as IMF and World Bank or advanced countries such as G-7 countries, globalization has become an economic and ideological hegemony

*Professor at Chung-Ang University, Department of Sociology.

1) This paper is a revised paper presented at the international conference on “Neo-liberalism in Korea” held in the Munk Centre at Toronto University in Canada throughout Feb 1-3, 2008 and “Globalization and the Nation State” held at Ritsmeikan University in Japan on March 27, 2008. I appreciate helpful comments given by participants in both conferences.

undermining sovereignty of the nation states. There has been an increasing threat of livelihood of workers, peasants and the urban poor in most of the Western world and non-Western countries as well. Nevertheless, other countries like China and India have hailed the new opportunity opened up by globalization to promote economic growth.

Globalization has never been a homogenous social process. Contrary to the prediction of some social scientists, different social systems have not converged into the same one as globalization has proceeded. The processes and outcomes of globalization significantly vary across countries as local or national actors interact with the global actors within institutional settings. While some expect dominance of neo-liberal globalization and the demise of the welfare state in Europe, national differences still persist, showing distinct institutional differences among advanced industrial societies (Hall and Sockice 1990; Esping-Anderson 1990; Stallings and Streeck 1995; Dore, Lazonick and O'Sullivan 1999; Schmidt 2002; Huber and Stephens 2003). Thus, path dependency becomes a new concept to explore the cross-national variation among the advanced industrial countries for the last three decades.

Korea has also experienced globalization as the Korean economy has been integrated into the world economy since the beginning of the export-oriented industrialization in the 1960s. Now the Korean economy is fully integrated into the global economy with liberalization of the financial market, deregulation of the international trade and enhancement of the flexibility of the labor market. Globalization in Korea has been distinct in two respects. Firstly, Korea has experienced abrupt neo-liberal globalization through the economic crisis triggered by the financial crisis in December 1997. The financial crisis accelerated the opening of the domestic market to international investors and foreign companies. The Korean government carried out extensive neo-liberal economic reforms during the financial crisis under the guidance of the IMF and the World Bank, fully liberalizing the domestic financial market and privatizing the public sector. Secondly, globalization has been taking place during the democratic transition. The newly formed democratic government had carried out neo-liberal economic reforms that immediately deteriorated the economic welfare of the people and undermined the social basis of the new government. The expectation of the people who supported the democratic candidate in the presidential election in 1997 was betrayed by the new democratic government that initiated neo-liberal economic reforms, sharpening economic inequality and increasing poverty. In short, the dual transition, political democratization and economic neo-liberalization, intensified social inequality and threatened the new democracy, making former supporters of the democratic party switched to the conservative party. The wining of the conservative party candidate in the presidential election in 2007 revealed the reaction of the many frustrated voters who voted for Roh Moo Hyun in 2002.

This paper explores the Korean experience of globalization that has taken place

during the democratic transition, focusing on the role of international financial institutions in implementing neo-liberal economic reforms and its consequence in terms of employment relations and income distribution. The Korean Odyssey of globalization reveals that globalization at the national level is a political and economic process of reshaping local politics and interests of global capital. The new democratic governments played a pivotal role in institutionalizing neo-liberalism in Korea. The concurrence of globalization and democratization shakes the foundation of the vulnerable new democracy in Korea, with the waning of the people's support for the democratic government. While political despotism that underpinned the developmental state has been significantly weakened by the democratic government, market despotism, emerged after the financial crisis, has been threatening the economic security of the people.

I . The Crisis of the Authoritarian Developmental State

Until the late 1980s, the accumulation regime developed during the rule of Park Chung Hee had persisted for more than two decades. Since the early 1960s, the military government had launched the series of economic planning for post-hoc justification of the military coup. The developmental state planned economic policies for economic growth by intervention in the allocation of financial resources and commodity market (Johnson 1982; Amsden, 1989 and Wade 1990). The developmental state supported chaebol, the family controlled conglomerates, to promote heavy and chemical industries by subsidizing investment of private companies and providing tax exemption. Getting the state subsidy was a common way for Chaebols to expand their business since the state monopolized banks. To use Janos Kornai's term, big companies supported by the authoritarian state could be classified as soft-budget constraint (SBC) firms in which the growth of the company was not based on innovation within firms but loans borrowed from outside banks and the state (Kornai 1979, 1980 and 1986).²⁾ Chaebol's companies could get financial subsidy from the state even when they were in trouble. Thus, it became a common sense that "big horses never die (too big to fail)" in the 1970s and 1980s in Korea.

Korean state capitalism upheld by political dictatorship and dual economy was challenged by both internal and external conditions in the late 1980s. The major internal challenge to the authoritarian developmental state was the anti-dictatorial movement that was gaining supports from the people since the mid 1980s. Chun Doo Hwan who captured

2) Originally, the concept of "soft budget constraint", as the concept of "hard budget constraint", was introduced by Janos Kornai to explain the economic behavior of firms in socialist economies in Eastern Europe. For more expanded discussions, see Robinson and Torvic (2006).

the military power after the Kwangju massacre eventually seized the state power and became a president in 1981. The new military rule was based on the state violence relying on the military and the police. The Chun regime, which suffered from the lack of legitimacy from the beginning, could not continue an oppression of the political opposition due to the Olympic game in 1988 in Seoul. Easing oppression took place from 1984 under the international threat that many foreign countries declared boycott of the Olympic if the oppression continued. More militant struggle for democracy by university students and the political opposition revived from 1985 and it eventually succeeded in crippling down the Chun regime in the summer of 1987 when Chun accepted the demand of the opposition such as free competitive presidential elections and free press.

On the other hand, the authoritarian developmental state was damaged by the revoke of the General System of Preference (GSP) by the Congress of the US. Korea could enjoy an unprecedented low exchange rate of Korean won to the US dollar, low oil price and low interest rate in the middle of the 1980s. For the first time in the modern Korean history, huge trade surplus was made in that period. That was the same for the other East Asian countries including Japan and Taiwan. The rising of the East Asian economy generated economic conflicts between the US and East Asian countries. As the American trade deficit against East Asian countries reached the historical recode in the early 1980s, it became one of the most important political issues in the American politics in the mid 1980s. Under the pressure of business and labor, the US congress and government launched economic retaliation against East Asian countries. The US congress agreed to stop giving preferential treatment to the Korean exporters in the US market. In 1988, the US introduced the new rules including Super 301 amended to demand the US Trade Representative for investigation on all priority practice to reduce trade deficit. With the collapse of the Cold War system, aggressive unilateralism in U.S. trade strategy appeared, displaying that protection of interests of the US business became more important than military alliance with East Asian countries (Martin 1994: 446-448).

Democratic transition from 1987 did not alter the nature of the authoritarian developmental state because the ruling authoritarian party could maintain the power with the winning of the first presidential election since 1968 due the spirit of two opposition leaders, Kim Dae Jung and Kim Young Sam. Rho Tae Woo, an ex-army general and a candidate of the authoritarian ruling party, won the presidential election in December 1987 and maintained the relationship among the state, labor and capital developed in the authoritarian regime. While the new parliament agreed to revise the labor relations law that restricted legal rights of workers, Rho vetoed the revised labor relations bill that was passed in the National Assembly in 1988. However, he could not oppress the labor movement as the previous governments did. Democratization significantly curtailed the

despotic power of president to intervene into labor disputes with the strengthening of labor unions and the supportive public opinion to the labor movement in the early 1990s.

The less engagement of the government in the labor disputes aggravated the relationship between the state and business. Business leaders who supported Rho in the previous presidential election in 1987 were dissatisfied with Rho's labor policy and began to voice their discontents and demands. Especially the Hyundai Group, one of the largest Chaebol engulfed with series of huge labor strikes, complained the weakening of the oppression of labor movement. The revolt of capital against the state appeared when Chung Joo Young, owner of the Hyundai Group, declared that he would run for the 1992 presidential election, criticizing impotency and corruption of politicians and the president. Rho was neither a democratic politician nor an old authoritarian one because he did not have strong political and social basis. Rho's ambivalence promoted Chung's decision to engage in the real politics. Although Chung failed to win the presidential election in 1992, symbolically he represented the changing relationship between the state and capital that had persisted for almost three decades.

The negotiation of the Uruguay Round in 1993 was to restructure the international trade rules replacing the GATT. Because East Asian countries was benefited from the past international trade system, mostly advanced industrial countries tried to make a new rule to restrict state protection of the domestic market in East Asian countries. The policy tradition of the developmental state became a target of criticism by Europe and America. The East Asian countries became more influential in the international economy, state protectionism and deregulation became more critical issues in the negotiation of the UR.

The OCED and the US also strongly recommended Korea to be a member of the OECD from the late 1980s, as the Korean economy continuously grew. The Federal Reserve Bank (FRB) of the US and the OECD asked delegates of Korea to participate in the meeting of the OECD to discuss lowering interest rates in 1990. The American government claimed in its report to the Congress that it would guide the Korean government to join the OECD and it would demand the lift of tariff and non-tariff barriers on exported goods and service from America. Lowering import tax rate was the key issue of trade conflict between Korea and other advanced industrial countries. While the Korean government promised to lower the tariff continuously, the OECD demanded more rapid reduction of the import tariff and interest rate in 1990.³⁾ Foreign business also demanded for opening the domestic market to foreign capital by changing rules. For example, the

3) The Korean government prepared the plan for opening the domestic market by gradually lowering import tariff from 11.5% in 1989, through 9.9% in 1990, to 6.2% in 1993 and it also provided a schedule for opening the service sector to reduce trade frictions (Seoul Newspaper Feb 27, 1990).

American Chamber of Commerce in Korea (AmCham) strongly demanded the opening of the service market including banking and insurance market (Korea Herald, June 20 1995).

The first response of the Korean government to the changing international economic environment came from the Kim Young Sam government when it advocated *Segeyha*, the Korean version of globalization in 1994. Before the declaration of globalization by Kim, there had been a continuous interaction between the Korean government and other international organizations. The OECD recommended and demanded the membership of Korea in the OECD in the late 1980s. In 1990, the Korean government planned to join the OECD by 1993 and it postponed the date of entry into the OECD in 1996 next year. Since there should be lots of changes in rules and customs in economic behavior, the Korean government evaluated that joining the OECD required more time to meet the standards of the OECD in many respects. Thus the entry of the OECD became one of the most important issues both at the national level and international level.

Domestically Kim Young Sam propagated that joining the OECD would be a matter of an international recognition of Korea because the OECD was “a club of advanced countries.” Therefore, becoming a member of the OECD was regarded as a historical achievement of the Kim Young Sam government. Kim declared globalization as a policy guideline of his government, affecting many aspects of social life of the people. The content of globalization Kim propagated was in nature an aggressive mercantilism in that Korea should more aggressively move on to the international market as a response to the challenge Korea faced. The government established the graduate school of international studies in major universities and improved English teaching at the high school to enhance international competitiveness. “Globalization and competitiveness” became a new hegemonic buzzword in the Korean society in 1994. Kim used it as political campaign to mobilize mass support to the new government rather than a scientific concept to understand social change at the global level,

To be a member of the OECD, the OECD demanded the Kim government to carry out institutional reform based on the OECD standards such as transparency of corporate governance, labor standards etc.. The core of the demands was reduction of state intervention in the economy and making the market play a central role in the national economy. The state intervention was considered as a hindrance to the economic development of Korea. While the state intervention in the economy was much lessened in the early 1990s, corporate behavior was not changed much. As *chaebol* challenged the economic reform of the Kim Young Sam government by capital strike such as refraining from new investment, the Kim Young Sam government gave up the attempt to reform labor relations and governance structure of *chaebol* during the first half of 1993 (Shin 2004).

Immediate impact of Korea’s membership of the OECD in 1996 was an upgrade of

Globalization and Social Inequality in South Korea

Korea's credit rating in the international market. The Japan Bond Research Institute (JBRI) assigned an AA+ to Korea, which was almost same as that of Denmark and Ireland and higher than that of Australia, Hong Kong, Finland and Italy (*Korea Times*, Dec. 19, 1996). The European Credit Agency, the International Bank Credit Agency, also Korea's joining the OECD would enhance the economic performance in the long-run and would be essential to the Korean economic miracle (*Korea Times*, February 6, 1997). The deregulation of the financial market and the commodity market was considered to upgrade the Korea's credit ranking since it was supposed to enhance the competitiveness of the Korean companies in the international market.

Upgrading Korea's credit rating resulted in soaring debt ratio of chaebols' companies. Korean conglomerates could get bank loan easier than before with an enhanced credit rating. Borrowing bank loan or government subsidy was considered as a normal way of investment among the soft-budget constraint firms. The average debt-to-equity ratio of top 30 conglomerates increased from 347.5 percent in 1995 to 386.7 percent in 1996 (*Korea Herald*, May 12, 1997).⁴⁾ Without reforming the nature of soft budget constraints of big companies, the new economic environment allowed them to borrow loans from international financial organizations. Big companies tried to expand their size by borrowing money from foreign banks. One year before the financial crisis, a central bank official described this as follows: "the corporate desire to borrow endlessly appears to be one of the key reasons for the current high-cost, low efficiency industrial structure in Korea." (*Korea Times*, November 16, 1996).

<Table 1> Trends of Foreign Debt, 1993-1997.

1993	1994	1995	1996	1997
42.8 billion \$	56.9 billion \$	78.4 billion \$	110 billion \$	140 billion \$

Source: Bank of Korea, each year.

II. The Economic Crisis and the Neo-liberal Reform

When South East Asia was engulfed by the financial crisis, the Korean government repeated that the fundamental of the Korean economy was strong enough to endure the economic volatility. While the governmental officials were sure of the healthy national economy, major companies of chaebols faced bankruptcy. As Korea became a member of

4) The debt ratio of all Korean firms was 286.8 percent in 1995. It was 87.2% for Taiwan, 32.3 percent for Japan and 37.5% for the U.S. (*Korea Herald*, May 31, 1997).

the OECD, it was not possible for the Korean government to subsidize ailing companies as before. In the past, big companies were supported by the government during the hard times and they pay back to the government when it recovered from the hard times. The reciprocal relationship between the government and big companies was a base of the soft-budget constrained firm during the period of economic growth. The entry into the OECD radically altered the rules of game that was developed under by the developmental state. The government could not fully fund the inefficient companies by political decision since state subsidy to the private companies was strongly restricted by the OECD.

The economic crisis was a consequence of the high debt ratio of foreign loans by big companies and their inability to repay as foreign banks didn't extend the due when Korean companies had to repay. As a series of bankruptcy of chaebols' companies took place with the overburden of debt for the first half of 1997, international credit rating agencies downgraded the credit rate of Korean banks before the financial crisis, making more difficult for Korean companies to borrow from the international financial market.⁵⁾ It created a chain of bankruptcy of companies that caused the default of financial organizations including large banks. The exchange rate of Korean Won slumped and it aggravated the financial difficulty more extensively. As the government changed the foreign currency exchange system from the fixed exchange rate system to the floating exchange rate system when Korea became a member of the OECD, the government lost the leverage of controlling the exchange market. The collapse of banking system shattered the whole economy paralyzing foreign trade. That was the beginning of the economic crisis.

The financial crisis took place when the government and business were not well prepared for the new economic environment in that a control of the financial market went beyond the boundary of the national government. Volatility of financial transaction was the new nature of the integrated international financial market dominated by hedge funds (Strange 1986 and 1998). Conglomerates that stuck to the soft-budget constraints did not adapt to the volatility of the international financial market. The growth of conglomerates by an investment in diversified areas by the borrowed money from the banks or the state was an embedded behavior of the Korean conglomerates.⁶⁾

The Korean government demanded the rescue loan from the IMF and the World

5) Standard & Poors lowered the credit ratings of major Korean banks since large scale Korean conglomerates were financially troubled (Korea Times October 3, 1997).

6) Chaebol has companies in many different industries. For example, Hyundai had a construction company, an auto manufacturing company, an insurance company, an electronic company, a shipbuilding company and department stores. Samsung also had the similar companies in the similar areas. See Cho (1991) and Kim (2005).

Bank. Immediately 3 billion US dollars was allowed for the rescue loan with the macroeconomic policy agreement between the Korean government and the IMF. The agreement for economic reform was comprehensive to restructure the whole economy (IMF 1997). The World Bank also lent a rescue loan to Korea. The largest rescue loan in the World Bank history was conceded on condition that the Korean government took actions to implement reforms demanded by the World Bank (World Bank, 1998a). While the IMF focused on the short term actions to deal with the crisis, the World Bank dealt with the longer-term reconstruction of the economy (The World Bank, 2004: 47). The reforms commonly demanded by the IMF and the World Bank included 4 major areas: the financial sector reform, privatization of the public sector, the corporate governance reform and an enhancement of the labor market flexibility. The World Bank and the Korean government agreed that the Korean government carried out reforms “under mandate set in consultation with the Bank” (World Bank 1998a: 7).

The structural reform the World Bank demanded was a complete restructuring of the Korean economy that had been shaped under the developmental state. The principle of the structural reform can be summarized as neo-liberalism associated with the Washington Consensus (Stiglitz 2002).⁷⁾ While the World Bank emphasized transparency and accountability of financial institutions and corporate governance, it also stressed liberalization of the financial market and deregulation of the economy including areas such as environmental and consumer protection. With regard to the labor market, the World Bank asked to relax legal restrictions of the labor market so as to enhance the labor market flexibility.

The World Bank demanded the Korean government to build social security system, as social tension increased with the mass layoffs and increasing poverty. As a result of a drastic economic restructuring and a labor market reform, more than 100 thousands of the new unemployed appeared in every month of 1998. The World Bank worried about the possibility that the rising social discontents against the neo-liberal economic reform might threaten the neo-liberal reform itself. It demanded the Korean government to strengthen social safety net. Specifically, it asked to “expand the coverage of the unemployment benefits to firms with fewer than 5 workers as early as possible” (World Bank 1998 b: 8). The Korean government accepted the demand of the World Bank by extending the coverage of the employment insurance to the firms with less than 5 workers in March

7) The meaning of the Washington Consensus varies according to the context of discussion. I use the term in a minimalist way to describe a policy prescription that contains key elements of the Washington Consensus; fiscal conservatism, deregulation of the market and privatization of the public sector. For more discussions, see Stiglitz(2006: pp. 16-17).

1998. The World Bank specified the demand for the welfare reform in antipoverty programs such as public assistance and medical aids. In addition, it demanded a proportionate expansion of budget for antipoverty programs with the increase of the poor. Paradoxically, the Korean welfare system developed during the economic crisis as the international financial institutions demanded the expansion of social safety net (World Bank 1999).

The World Bank's structural adjustment loan displayed that neo-liberal reform could not succeed without a proper level of the development of social safety net. Sustainable neo-liberal reform requires social safety net to reduce social conflicts and political instability due to social discontents and social unrests. The World Bank strategically utilized the welfare program to make neo-liberal reform sustainable. However, the welfare system the World Bank demanded was the residual, minimal welfare system. While the development of the welfare programs occurred during the democratic regime, it had limitations to be fully developed into the welfare state. It only functions as a political safety valve to prevent a massive social challenge against the neo-liberal reform rather than as social citizenship to guarantee social welfare rights to the people.

III. Casualization of Work and Social Polarization

The economic crisis transformed the behavior of economic actors in a fundamental way. While the neo-liberal reform was conducted by the government, the government began to lose its power of coordinating the market economy. Instead of the state, the market itself functions as a coordinating system of the production and distribution. The developmental state that had controlled the national economy in the past began to rapidly wane in influence as the neo-liberal reform proceeded. The government could exercise dreadful power for the short period when almost half of the largest chaebols were collapsed in the first 2 years of the financial-cum-economic crisis. The discretionary power of the government, however, has been curtailed by the successful neo-liberal economic reform. The neo-liberal reform empowered chabeol's companies that survived in the financial crisis since they could exercise more independent power in decision making with regard to investment and employment. With lessened regulation of the government in the labor market, private companies exercised managerial power to maximize short term profits.

The immediate impact of neo-liberal reforms was mass layoffs and a drastic increase of casual or contingent workers such part-time workers, contract workers, dispatched workers, temporary workers etc. As almost all companies discharged regular workers and replaced them by non-regular workers, the number of non-regular workers drastically

Globalization and Social Inequality in South Korea

increased from 43.8% in March 1997 to 53% in December 1999.⁸⁾ While the proportion of irregular workers in Korea was already much higher than other OECD countries prior to the economic crisis, the proportion of irregular worker further increased by more than 10 percent in 2 years. Korean companies intended to increase numerical flexibility rather than functional flexibility by replacing regular worker by irregular workers and hiring new employees as irregular workers during the economic crisis. Thus the proportion of irregular workers was accelerated when trade unions and employer associations made an agreement on free discharge of the surplus labor in the early 1998 as a social pact to manage the financial crisis.

An increase of casual workers accompanied diversification of work categories other than regular work. As a measure of labor market flexibility, new forms of employees were extensively introduced in the all area of employment in the private sector as well as the public sector. <Table 2> displays the trend of employment status of employees before and after the financial crisis. The most remarkable thing is that the number of regular workers decreased by almost 1.1 million for two years from 7,282,000 in 1997 to 6,395,000 in 1999. The growth of regular employees occurred only after 1999 as the Korean economy recovered from the economic turmoil. However, there was a drastic change in the structure of employment as the proportion of temporary workers and daily workers became larger than that of regular workers even after 1999. The proportion of irregular workers comprised 51.6 percent of the total employees in 1999. While the proportion of irregular workers was already much high, it did not exceed the proportion of regular workers until 1999. The proportion of irregular workers decreased to 47.6% in 2006. It was still the case that almost half of the employees worked as irregular workers in Korea.⁹⁾

<Table 2> Change of number of employees by type of employment, 1994-2006 (person, thousand).

Type	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
RE	7,225	7,499	7,499	7,282	6,534	6,135	6,395	6,714	6,862	7,269	7,625	7,917	8,204
TW	3,475	3,598	3,907	4,236	4,042	4,255	4,608	4,726	4,886	5,004	5,082	5,056	5,143
DW	1,779	1,802	1,794	1,868	1,720	2,274	2,357	2,218	2,433	2,130	2,188	2,212	2,204

Note: RE refers to regular workers, TW temporarily workers and DW daily workers.

Source: National Statistics Office (<http://www.kosis.kr/>).

8) There are variety of terms to indicate irregular workers; non-standard workers, atypical employment, contingent workers, and precarious workers. The term of irregular workers refer to workers who are not employed as full time employees with a secure employment contract.

9) Based on the Economically Active Population Survey (EAPS), the National Statistical Office has reported the statistics for irregular workers since 2002. It showed that the proportion of irregular workers increased by 3.6% from 4.603 million in 2003 to 5.703 million in 2007 (Korea National Statistical Office 2007).

The most serious problem of irregular workers was a low wage. An average wage of irregular workers was almost 50~70 percent of that of regular workers in 2004 (Kang 2005: 58; Lee 2007: 71). In addition, irregular workers who frequently experienced job instability did not get welfare benefits including unemployment insurance. <Table 3> presents the coverage of four major welfare programs for employees by the type of employment. The coverage of the welfare for the irregular workers was far lower than that of the regular workers by almost one fourth. While both employers and employees were legally required to pay welfare costs such as pension and health insurance, they did not abide by the legal code.¹⁰⁾ They had shared interests of avoiding welfare entitlement under the system of mutual contribution to insurance. While employers could reduce the total cost of employment of works by denying welfare contribution for irregular workers, irregular workers actively avoided the welfare benefit because their wage is too low to pay the welfare burden. Enhancement of the labor market flexibility resulted in an increase of the number of vulnerable workers without a proper level of social protection. As a result, the proportion of the working poor measured by the ratio of household income less than 50 percent of the median household income continuously increased from 8.38 percent in 1994 to 11.86 percent in 2005. When we use the measure of relative poverty used by the OECD, below 60 percent of the median household income, the poverty ratio also increases 14.46 percent in 1994 to 18.40 percent in 2005 (Kim 2007: 154).

<Table 3> Welfare coverage by employment type

	Regular Employment	Irregular Employment
Pension	74.9	15.2
Health Insurance	76.5	17.6
Unemployment Insurance	70.0	19.0
Industrial Injury Insurance	69.1	20.5

Source: Korea Labor Institute (2006: 3)

Casualization of work has been specific to class and gender. Working class women were heavily hit by the transformation of the labor market. <Table 4> presents the proportion of irregular employees by class and gender in 2005. Although there is a substantial proportion of irregular employee of the middle class, it is much lower than that of the working class. All categories of the working class, white collar workers, skilled workers and unskilled workers, show almost 4 times higher proportion of the irregular job

10) The rate of contribution of each employee is 4.5% of total earnings and employers should contribute to the same amount of pension due to the employee's national pension.

Globalization and Social Inequality in South Korea

holders. More over, there is big difference within the middle class with 11.5% for managers and professionals and 20.4% for technicians and semi-professionals. Gender differentials also are quite conspicuous. Female employees are much more likely to be irregular workers or middle class employees than male employees. Female middle class members are almost twice more likely to work as irregular employee than male middle class members for both managerial-professional jobs and technical and semi-professional jobs. Gender difference within the working class is also striking. The proportion of irregular job is highest among female unskilled workers with 66.3%. White collar female workers also extensively engaged in irregular jobs with 46.7%.

<Table 4> Proportion of Irregular Jobs by Class and Gender (2005)

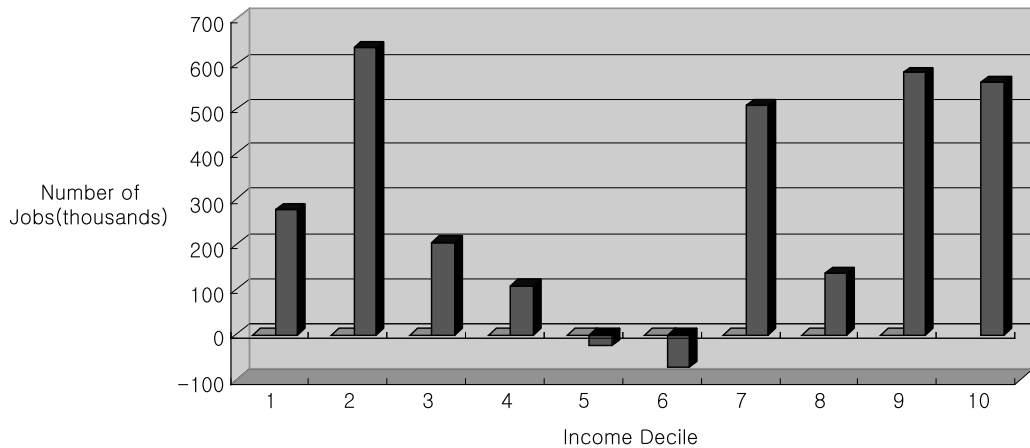
Class \ Gender	Male	Female	Total
Managerial-Professionals	7.4	18.5	11.5
Technician-Semi Professionals	14.3	27.7	20.4
White Collar Workers	22.7	46.7	38.8
Skilled Workers	43.7	36.3	42.3
Unskilled Workers	34.7	66.3	43.8

Note: Calculated from The Korea Labor Income Panel Survey 2005.

An increase of high income jobs was also a new development as the government supported the IT industry and the knowledge economy. The Kim Dae Jung government supported the formation of the venture companies in IT industry by providing financial subsidy as a way of boosting the economy. As IT industry developed, new lucrative jobs such as high tech engineers were created. As automation and digitalization proceeded, low managerial job and clerical job in the banking industry or service industry disappeared. Moreover, the Korean financial market was integrated into the global financial market, new jobs with high salary such as fund managers and financial analysts were also created. Polarization of jobs has continued for the last 10 years. As many researchers (Castells, 2000; Atkinson 2006) argue, the knowledge economy contributed to the polarization of the job market with a 'U' shape, with more jobs with high and low wages and fewer jobs with middle wage. The rise of digitalization and automation in the post era of the economic crisis led to the job cut in insurance and banking as well as jobs of the manufacturing sector. As <Figure 1> shows, for the last decade, the largest loss of job occurred in the middle income occupations and the largest job occurred in the low income occupation in Korea (Chun 2006; KDI 2006).

In 2006, the labor law for protecting irregular employees was legislated to protect

<Figure 1> Job Changes by Income Decile, 1993-2004



Source) Korea Development Institute (2006: 26)

irregular workers after 5 years of tug-of-war among labor, capital and the state. While labor unions demanded more effective protection of irregular workers by restricting type of jobs for hiring irregular workers, employer organizations argued that the Korean labor market was so rigid and more policy measures should be introduced to enhance the labor market flexibility. The labor law that passed the National Assembly in December 2006 codified that employers should change the employment status of irregular workers to regular workers after 2 years of employment. The labor law has been enacted since June 2007. The new labor law failed to protect the vulnerable irregular workers because many employers discharged irregular workers prior to the term of 2 years of employment and utilized an indirect employment through employment service firms or outsourcing. Dispatched workers have been more proliferated than before right after enactment of the labor law.

Vulnerability of workers can be empirically measured by several indicators. <Table 5> presents the average job tenure of workers in major OECD countries from 1992 to 2002. In general, European countries display the longer job tenure than Anglo-Saxon countries. The average job tenure of the U.S. is the lowest among Western countries with 6.6 years in 1997. It was about 10 years in continental European countries except Denmark that introduced a new system of flexicurity with high labor market flexibility and extensive social security (Wilthagen and Tros 2004; Campbell and Peterson 2007). The difference in the average job tenure implies that job change in the neo-liberal market economy is much more frequent than in the coordinated market economy.

Two East Asian countries, Japan and Korea, show an interesting contrast in that Japan still shows the longest average job tenure, while Korea shows the shortest average job tenure among the major OECD countries. It implies that the Korean employers are much different

Globalization and Social Inequality in South Korea

<Table 5> The average job tenure in major OECD countries in 1992, 1997 and 2002

Country	1992	1997	2002	1992-2002
Begium	11.0	11.4	11.6	0.6
Denmark	8.8	8.5	8.4	-0.4
Finland	-	10.4	10.3	-
Netherland	8.9	9.8	9.9	1.0
France	10.4	10.9	11.3	0.9
Germany	10.7	10.1	10.7	-
Sweden	-	11.5	10.5	-
Britain	8.1	8.0	8.1	0.0
US	6.7	6.6	-	-
Japan	10.9	-	12.2	1.3
Korea	4.0(1990)	6.1	5.6	1.6

Source: Source for Korea, the Ministry of Labor (2004) and source for other countries, Auer, Berg and Coulibaly (2004: 3)

from the Japanese employers in employment practice. Although some researchers (Sato 1997; Higuchi 1997; Nitta 1998; Sato and Sano 2006; Tatsumichi 2006) argue that the Japanese system of employment underwent significant changes during the recent recession, Japanese employment system still shows remarkable difference from the Korean one in a comparative perspective. As the involuntary early retirement of the employees became prevalent after the economic crisis in Korea, the difference between two countries became widened. <Table 5> also shows that the labor market flexibility in Korea is much higher than any other countries including the U.S. in the OECD. We might safely conclude that the Korean labor market is much closer to the American labor market than the Japanese labor market.

The economic crisis and subsequent economic reforms aggravated income distribution by intensifying casualization of work as well as polarization of income. <Table 6> presents inequality of household income measured by Gini Coefficient and the ratio of the income of the richest 10 percent of the people to the income of the poorest 10 percent of the people. There are some conspicuous patterns of income inequality across countries in <Table 6>. Firstly, income inequality is very high in former state socialist countries such as Russia and Estonia that experienced economic transition from the planned economy to the market economy. The Gini coefficient was 0.434 for Russia and 0.361 for Estonia in 2000, respectively. Secondly, Scandinavian countries showed much lower level of income inequality than any other countries in Europe. Gini coefficient of Denmark was 0.236 in 1992. Finland, Norway and Sweden also showed very low Gini coefficients with 0.247, 0.251 and 0.252 in 2000, respectively. In spite of intermittent interruptions of power, the rule of social democratic parties in those countries contributed to the formation of egalitarian social

system. Thirdly, the level of income inequality of continental European countries was relatively low, though it was slightly higher than that of Scandinavian countries. Fourthly, Anglo-Saxon countries showed the very high level of income inequality. The U.S. showed

<Table 6> Income inequality in selected countries (household income)

Countries	Year	Gini Coefficient	P90/P10 (decile ratio)
Denmark	1992	0.236	2.85
Slovak Repub.	1996	0.241	2.88
Finland	2000	0.247	2.9
Slovenia	1999	0.249	3.15
Belgium	1997	0.250	3.19
Norway	2000	0.251	2.8
Germany	2000	0.252	3.18
Sweden	2000	0.252	2.96
Netherlands	1994	0.248	3.15
Czech	1997	0.259	3.15
Luxembourg	2000	0.260	3.24
Austria	1997	0.266	3.37
Taiwan	1995	0.277	3.38
Romania	1997	0.277	3.38
France	1994	0.288	3.54
Poland	1999	0.293	3.59
Hungary	1999	0.295	3.57
Spain	1999	0.303	3.96
Canada	1998	0.302	4.13
Swiss	1992	0.307	3.62
Australia	1994	0.311	4.44
Ireland	1996	0.324	4.33
Italy	2000	0.333	4.48
Israel	1997	0.346	4.86
England	1999	0.345	4.58
Korea	2004	0.352	5.93
Estonia	2000	0.361	5.08
US	2000	0.368	5.45
Russia	2000	0.434	8.37
Mexico	1998	0.494	11.53

Source: Nolan and Smeeding (2004: 11) and Bureau of Statistics (2004)

Globalization and Social Inequality in South Korea

the highest income inequality among advanced industrial countries with 0.368 in 2000. England also displayed the very high level of income inequality with Gini coefficient of 0.352. Both countries commonly adopted the neo-liberal economic policy from the early 1980s.

Income inequality in South Korea was higher than that of England and very close to that of the U.S. The ratio of the richest 10 percent to the poorest 10 percent was 5.93, which was even higher than that of the U.S. Gini coefficient had been declining in the 1980s. It continuously declined from 0.336 in 1988 to 0.295 in 1996 (Bureau of Statistics 2004: 229). The neo-liberal reform after the financial crisis drastically reversed the trend of declining inequality in the 1980s. Other estimations of income inequality showed similar trends though the level of income inequality might be different from the government statistics. For example, Shin and Shin (2007: 26) report that Gini coefficient has increased from 0.4053 in 1997 to 0.4352 in 2003. Furthermore, social polarization index developed by the Esteban and Ray (1994) also show that polarization was intensified between 1997 and 2003.¹⁰⁾

<Table 7> presents the trend of poverty rate from 1997 to 2004. Three different measures of the ratio of the poor were used to explore the trend of poverty in Korea. The poverty line set by the government was used to measure the size of the poor. <Table 7> shows the sharp increase of the household under the poverty line right after the financial crisis in 1997. It increased by more than twice from 3.9 percent to 9.4 percent between 1997 and 1999. It decreased from 9.4 percent in 1999 to 5.2 percent in 2002 and increased again up to 6.0 percent in 2004. The OECD usually used an indicator of the poverty by the ratio of the people who earn less than 60% of the median income. When we apply the measure used by the OECD, the poverty ratio increased by twice from 15.7 percent in 1997 to 18.0 percent in 2004. Another measure of the poverty, the ratio of the people who earn less than 50 percent of median income also shows an increase from 9.1 percent in 1997 and

<Table 7> Poverty ratio, growth rate and unemployment rate, 1997-2004.

	1997	1998	1999	2000	2001	2002	2003	2004
Below the poverty line	3.9	8.2	9.4	7.6	6.5	5.2	6.1	6.0
Below 50% median income	9.1	10.7	10.6	10.0	9.8	9.7	10.8	11.7
Below 60% median income	15.7	17.0	16.9	16.4	16.5	16.6	16.8	18.0
GDP growth rate	4.7	-6.9	9.5	8.5	3.8	7.0	3.10	4.6
Unemployment	2.6	7.0	6.3	4.1	3.8	3.1	3.4	3.5

Source: Kim and Park (2005)

10) The change of the polarization index varies from 68% to 310% according to the assumption about polarization sensitivity. See Esteban and Ray (1994).

11.7 percent in 2004. All three indicators of poverty present a sharp increase of the poverty ratio after the financial crisis. While unemployment rate returned to the normal level, poverty becomes more prevalent than before in Korea.

IV. Conclusion

The Korean experience of neo-liberal globalization was unique in that globalization and democratization took place at the same time. The opposition party that won the presidential election in 1997 took the state power two months after the financial crisis in December 1997. As the IMF and the World Bank provided not only the rescue loans but also policy packages to reform the Korean economy, the new democratic government just followed the policy packages suggested by the IMF and the World Bank. The principle of the economic reform was neo-liberalism, articulated as the Washington Consensus. The Washington Consensus, the common policy orientation of the IMF, the World Bank and the Department of US Treasury, was opposite to that of the developmental state in which the authoritarian state played a key role in resource allocation and regulation of the domestic market.

The success of neo-liberal economic reform significantly curtailed the power of the government as the state retreated from the economic area by deregulation, liberalization and privatization. While it contributed to the formation of the new relationship between the state and capital, it also restricted the role of the state even in the redistribution and social welfare. Even though the IMF and the World Bank gave impetus to the expansion of welfare programs in Korea, they did not want to develop full fledged welfare state but the minimal and residual welfare program to reduce discontents of the socially excluded.

The neo-liberal economic reforms for 10 years drastically changed the structure of the labor market with diversification of jobs and casualization of work. The labor market reform of the government aimed at enhancing labor market flexibility by deregulation of employment relations. There has been a rapid increase of contingent workers, as Korean companies relied on numerical flexibility to reduce labor cost. Contingent workers who are experiencing low wages and job instability comprised almost half of the total employees, the highest rate among the OECD countries.

The neo-liberal economic reforms also generated social polarization. A rapid increase of economic inequality and expansion of the poor have been also observed for the last 10 years. It seems to be impossible to reverse the trend without restructuring the labor market and fabricating a new welfare system. The advent of the knowledge economy aggressively pursued by the Kim Dae Jung government also contributed to the increasing economic inequality by reducing middle income jobs and occupations. Thus, polarization

of employment opportunities aggravates income distribution among wage earners.

Both Kim Dae Jung government and Rho Moo Hyun government did not try to pursue an alternative policy principle and programs to the authoritarian economic model and the neo-liberal economic model. They followed the new path of the Korean economy paved by the IMF and the World Bank, breaking the old path, i.e. the path of the authoritarian developmental state or state-led export oriented industrialization. The dismal outcome of the 10 year rule of the democratic government came from the fact that although the democratic government succeeded in democratizing the political arena, it failed to properly coordinate the market economy to protect the basic livelihood of the people and build social citizenship. The two democratic governments betrayed the hope and expectation of the voters who expected the new government would promote political democracy as well as economic and social security. Although the Kim Dae Jung government did not have much policy options due to the financial crisis, it did not try to negotiate the nature of the economic reform with the IMF and the World Bank. Two democratic governments have pursued the neo-liberal policies even after the Korean government officially announced the complete repayment of the rescue fund to the IMF and the World Bank in December 2001. Ironically, market despotism replaces state despotism, as a result of the neo-liberal reform by civilian governments.

The Korean experience of neo-liberal globalization reveals that political democratization would be shaky without economic reform that could guarantee economic prosperity and social security for the mass. Democratic consolidation is not only a political issue but also an economic issue in the sense that the new democracy requires economic bases that contribute to reinforcing the loyalty of the pro-democracy voters. Voters supported the democratic party in 2002 are disappointed by the democratic government and some of them shift their support to the conservative party with the authoritarian legacy.

The Korean experience also shows that unbridled neo-liberal globalization might endanger the new democracy when the rule of the people is replaced by the rule of national or transnational capital. We need a new global democracy or fair globalization to bridle globalization in order to promote political democracy and economic responsibility of the national governments and international financial institutions. As many (see, among others, Patomäki 2006; Stiglitz 2006) already argued, the democratic deficit of the international institutions should be remedied so as to strengthen new democracy and to democratize globalization itself.

Reference:

Ahn, Joo Yup et al. (2001) *Facts of the Irregular Works and Policy Issues*, Seoul, Korea Labor Institute.

Kwang-Yeong Shin

- Atkinson, Robert D. (2006) 'Inequality in the new knowledge economy,' *The New Egalitarianism* ed. by Anthony Giddens and Patrick Diamond, Cambridge: Polity.
- Auer, Peter and Janine Berg and Ibrahim Coulibaly (2005) 'Is stable workforce good for the economy? Insights into the tenure-productivity-employment relationship,' *International Labour Review*, 144 (3): 319-343.
- Ban Jung-Ho (2006) 'The Gap of Welfare Benefits by Type of Employment', *Labor Review* 15: 28-38.
- Bureau of Statistics (2004) *2004 Social Indicators of Korea*.
- Campbell, John and Ove K. Pedersen (2007) 'Institutional competitiveness in the global economy: Denmark, the United States and Variety of Capitalism', *Regulation & Governance* Vol. 1, Issue 3: 230-246.
- Castells, Manuel (2000) *The Rise of Network Society, the Information Age: Economy, Society and Culture I*, London: Routledge.
- Chun, Byung-Yoo (2006) 'Polarization of the labor market', *The Polarization of the labor market and policy issue* ed., by Ahn Joo Yup, Seoul: Korea Labor Institute.
- Cho, Dong-Sung (1991) *A Study of Chaebol*, Seoul: Maeil Newspaper.
- Dore, Ronald, William Lazonick and Mary O'Sullivan (1999) 'Varieties of Capitalism in the Twentieth Century', *Oxford Review of Economic Policy*, Vol. 15, No. 4: 102-120.
- Esteban, Joan and Debraj Ray (1994) 'On the measurement of polarization', *Econometrica* 62: 819-852.
- Held, David et al. (1999) *Global Transformation*, London: Blackwell.
- Hirst, Paul and Grahame Thompson (1996) *Globalization in Question*, Oxford: Polity.
- International Monetary Fund (1997) *IMF Stand-By Agreement*, December 5.
- Johnson, Chalmers (1982) *MITI and the Japanese Miracle: The Growth of Industrial Policy 1925-1975*, Stanford: Stanford University Press.
- _____ (1999) 'The Developmental State: The Odyssey of the Concept', in Meredith-Woo Cumings, ed., *The Developmental State*, Ithaca: Cornell University Press: 32-60.
- Kang, Seung Ho (2005) 'The gap between regular workers and irregular workers in working conditions', *Labor Review*, Vol. 12.
- Kim, An Na (2007) 'Characteristics and Determinants of the working poor', *Social Welfare Policy* Vol. 29, No. 4: 145-168.
- Kim, Jae and Park Neung-Hoo (2005) *Evaluation of the Validity of the Korean Model of EITC*, Institute of Health and Welfare, Policy Discussion Paper.
- Kim, Jin-Bang (2005) *The Structure of Owership of Chaebol*. Seoul: Nanam.
- Korea Development Institute ed., (2006) *Socio-economic Policies for Overcoming Polarization and Social Integration*, KDI Research Report 2006/8/13.
- Korea National Statistical Office (2007) *Economically Active Population Survey (EAPS) in October 2007*, 2007/11/16.
- Korea Times (1996) 'Corporations beset with soaring financial burdens/despite interest rate cut', November 16.
- _____ (1997) 'European Agency Positive to Korea's Economy', February 6.
- _____ (1997) 'S&P Credit Ratings of Hanil Bank, KEB, Shinhan' October 3.
- Lee, Sung Kyun (2007) 'Labor flexibility and labor income inequality', in Chung Byung Yoo, Korea Labor Institute, eds., *An Economic Analysis of the Polarization in the Labor Market*: 56-78.
- Nitta, M. (1998) 'Employment Relations after the Collapse of the Bubble Economy', in Banno J. ed., *The*

Globalization and Social Inequality in South Korea

- Political Economy of Japanese Society* Vol. 2: 267-278.
- Nolan, Brian and Timothy Smeeding (2004) 'Ireland's Income Distribution in Comparative Perspective,' Luxembourg Income Study Working Paper No. 395.
- Patomäki, Heikki (2006) 'Global Justice: A Democratic Approach', *Globalizations* 3(2): 99-120.
- Robinson, James A. and Ragnar Torvic (2006) *A Political Economy Theory of the Soft Budget Constraint*, NBER Working Paper 12133.
- Sato, Hiroki (1997) 'Human Resource Management System in Large Firms: The Case of White-Collar Graduates,' in Sako, M and Sato H. ed., *Japanese Management and Labour in Transition*, London: Routledge: 104-130.
- Sato, Hiroki and Sano Yoshihide (2006) 'Employment Category Diversification and Personal Management Problems', *Japan Labor Review* Vol. 2, No. 2: 30-55.
- Schmidt, Vivien (2002) *The Future of European Capitalism*, Oxford: Oxford University Press.
- (2003) 'French capitalism transformed, yet still a third variety of capitalism,' *Economy and Society* Vol. 32, No. 4: 526-554.
- Shin, Dong-Kyun and Shin Kwang-Ho (2007) 'Characteristics of Income Polarization and Socio-economic Impact,' in Chun Byung Yoo, ed., *An Economic Analysis of the Polarization in the Labor Market*, Korea Labor Institute: 9-55. .
- Shin, Kwang-Yeong (2004) 'The Capitalist Class and Democratization in Korea', *The Journal of Political Economy*, Vol. 1, No. 1,
- Stiglitz, Joseph (2002) *Globalization and Its Discontents*, New York: Norton.
- (2006) *Making Globalization Work*, New York: Norton.
- Tatsumichi, Shigoto (2006) *Business Strategy and Human Resource Management in Japanese Companies Today*, The Japan Institute for Labor Policy and Training Research Report No. 61.
- World Bank (1998a) *Korea-Structural Adjustment Loan I*, March 26.
- (1998b) *Korea-Structural Adjustment Loan II*, October 23.
- (1999) *World Bank Report 1999*, New York: World Bank.
- Wilhagen, T. and F. Tros (2004) 'The concept of "flexicurity" : a new approach to regulate employment and labor markets' in Flexicurity: Conceptual Issues and Political Implementation', *European Review of Labour and Research*, Vol. 10, No. 2.