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# 'A New Wine in A New Bottle?' : The Social and Political Realignment under Restructuring in South Korea*

Hyun-Chin Lim
Suk-Man Hwang

*This paper investigates the social and political concomitants of structural adjustment in South Korea. After three years of restructuring in the financial, corporate, employment, and public sectors under the IMF's oversight, South Korea has undergone a profound societal transformation. It will be argued that the neo-liberal, market-oriented reform policies of Kim Dae Jung regime are aimed at improving national competitiveness by strengthening transnational linkages. Specifically, this paper will address i) the basic policy lines of structural adjustment programs in terms of achievements and failures, ii) the resulting social and political realignment with regard to power distribution and class alliance, and iii) the lessons from Mexican restructuring where the bright and dark sides have coexisted. This paper concludes that restructuring is a necessity for South Korea, but its current structural adjustment is conservative and cosmetic. In order to survive the violent 21st century, South Korea needs to undergo more fundamental restructuring based on a new alternative paradigm of development.*

## 1. INTRODUCTION

Once again Korea has become the center of worldwide interest. This time it is not only South Korea but also North Korea that has stunned the world, as Kim Dae Jung and Kim Jong Il, the leaders of the two Koreas signed a landmark agreement to ease age-old cold-war tensions in the Korean peninsula. The agreement includes reunification by independence, a confederation system of government, reunion of separated families, and economic cooperation towards an integrated national economy.

Three years ago, faced with an unexpected national default, South Korea asked for emergency bail-out aid from the International Monetary Fund (IMF) and has since undergone neo-liberal restructuring under its stewardship. There have been different arguments as to whether South Korea has overcome the economic crisis or is still in danger.[1]

Some scholars and policy makers believe that the country has made significant progress in consolidating financial institutions and reorganizing the corporate sector (Cho and Rhee 1999; Shin 2000). Others insist that the country may face another economic crisis unless more progress should be made in recapitalizing financial institutions and the corporate sector

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[1] It is interesting to note that as a main consultation body the IMF has offered South Korea a cautious mix of optimism and warning. Their point is that while the country's economic situation is relatively stable, without further restructuring in financial and corporate sectors, its economy might face a drastic economic downturn. Korea Times, June 17, 2000.

(Chung 2000; Samsung Economic Research Institute 1999).

Is South Korea capable of rendering economic assistance to North Korea on the road to reunification? Unfortunately, the answer is “No.” Behind the high hopes for reunification as a means for escaping a half-century of division and conflicts, there is increasing uneasiness among the people about the future of the South Korean economy. Think about Daewoo's past insolvency and Hyundai's recent crisis; the former used to be and the latter is among the big five chaebol conglomerates. Regardless of size, both large companies and small enterprises have recently had great difficulties in repaying existing loans and gaining new ones. It is in this sense that dark clouds gather on the country's future economic horizon. In the long-term, it is very desirable for North Korea and South Korea to promote economic interchange and cooperation. As of now, however, South Korea cannot afford to finance building an infrastructure and development projects[2] in North Korea without the help of international financial institutions and G-7 countries.

As a matter of fact, South Korea is still struggling to rejuvenate its once-crippled economy. The country is far from a success story. It is our contention that IMF-sponsored, market-oriented restructuring is basically *conservative and cosmetic*. The structural adjustment is conservative in that it is aimed at increasing competitiveness and productivity rather than equity and fraternity. The structural adjustment is also cosmetic in that reform measures are marked more by talk than by action. It can be said that the structural adjustment lacks principle, transparency, and consistency. There are no people who either ask responsibility or take it for restructuring. If the IMF tries to apply old-fashioned prescriptions to South Korea, the Kim Dae Jung regime lacks new attitudes and new behaviors in coping with the economic crisis. We dare to say that the South Korean case can be likened to “the old wine in the old bottle.”

This paper is a modest attempt to assess economic adjustment programs in South Korea for the last three years in terms of changing state-society relations. We propose to critically examine the social and political outcomes of restructuring by referring to Mexican experience from a comparative perspective. First, we will assess the basic policy lines of economic adjustment programs in terms of achievements and failures. Next, the social and political concomitants of economic restructuring will be examined with respect to power distribution and class alliance. Finally, we will consider the market-friendly reform in Mexico that has a strong bearing on South Korea's present structural adjustment.

## 2. POLITICAL ECONOMY OF RESTRUCTURING

### 2.1. A Neo-liberal Structural Adjustment

It should be very instructive to note that there have been more cases of failure than of success in the developing countries having undergone the IMF's structural adjustment programs.[3] Having evaluated critically a variety of empirical studies conducted on the

[2] It is estimated that building an infrastructure in North Korea requires US $70 billion in ten years.

[3] Following Nelson (1990: 3-4), we distinguish structural adjustment programs between one or two years of short-run stabilization (reduction of aggregate demand through macroeconomic management such as devaluing currency, slowing down inflation, reducing balance-of-payment deficit) from three to five years of medium-term structural change (encouraging foreign exchange earnings or savings such as trade liberalization, price deregulation, and tax reforms).

performances of these programs in different countires, Dasgupta (1998: 378) concludes, “there is no evidence that structural adjustment works.” Indeed, almost all of the developing countries under IMF's restructuring have shown a low degree of growth, even with denationalization of capital accumulation, growth without distribution, increased employment and underemployment, and worsened foreign indebtedness.

He goes on to say that:

> “Dependence on structural adjustment tends to become never-ending... What was originally planned as an emergency surgical operation, has now become a routine treatment, irrespective of the specific conditions of the patients. Once admitted, it becomes a life-long patienthood in the (International Monetary) Fund- (World) Bank hospital. Seventeen years is a long time for testing a package of policies, and there can be no doubt that structural adjustment has failed the test of time.” (Dasgupta 1998: 136)

There are a couple of flaws in the IMF's restructuring package. First, the developing countries are forced to ‘adjust’ their economies to the logic of the world market created by the interests of the developed countries. The IMF, controlled by developed countries, initiates structural adjustment programs that are less beneficial for developing countries. Second, the IMF's restructuring package is too standardized to take into consideration the social, cultural, economic, and political specificities of the developing countries. It does not allow developing countries to pursue their own development strategies based on those specificities (Dasgupta 1998: 135-136).

South Korea has vigorously undertaken a major restructuring plan under the IMF's trusteeship.[4] Usually, a country's implementation of structural adjustment can be examined along three dimensions: timing, scope, and content (Nelson 1990: 13).

If South Korea had initiated restructuring earlier than needed, she could have escaped the economic crisis. Delayed restructuring aggravated the already severe economic difficulties. The economic crisis took place during the period of a presidential election, and thus all the presidential candidates hastened to accept the IMF's conditionality without thoroughly reviewing it. It is against this backdrop that South Korea under the Kim Dae Jung regime began to launch neo-liberal structural adjustment programs.[5]

South Korea's restructuring is characteristic more of crisis management than of systematic overhaul. Short-term stabilization has outweighed long-term structural change. The country has attempted to achieve structural adjustment in a relatively short time, with an audacious goal of achieving growth and distribution simultaneously. Thus, the restructuring was geared more to revising macroeconomic coordination than introducing an overall rebuilding of the institutional basis of the inefficient economy itself. As the first elected opposition-turned-ruling government, the Kim Dae Jung regime has in fact put more emphasis on political logic than on broad participation. It has favored the technocratic political style of restructuring (Przeworski 1991: 183).

South Korea's neo-liberal, market-oriented reform consists of orthodox structural

[4] In implementing adjustment programs, the South Korean case is close to 'social learning' in that the IMF has had a strong power in shaping the process of policy choice (Kahler 1992: 123-125).

[5] In implementing the IMF's neo-liberal structural adjustment, Kim Dae Jung regime's political platform is a simultaneous development of 'democracy', 'market economy', and 'productive welfare'.

adjustment programs towards liberalization, privatization, and deregulation, with an emphasis on financial recapitalization, corporate reorganization, labor market flexibilization, and public sector downsizing (Lim 1999). The restructuring has been basically designed to strengthen national competitiveness by extending transnational linkages within the capitalist world system.

South Korea's restructuring is somewhat distinctive in that the neo-liberal market reform package includes a neo-corporatist ideology of social partnership among labor, management, and government, and in that the government has taken an unorthodox approach, pursuing investment and welfare at the same time by strengthening the social safety net. However, the Labor-Management-Government Tripartite Commission has run into a problem due to labor's dissatisfaction about the government's restructuring program of downsizing and layoffs, and the so-called 'productive welfare' has so far proven to be ineffective in reducing unemployment and inequality.

### 2.2. The South Korean Economy

It should be mentioned that even though South Korea's recent macroeconomic performances are good enough to have released South Korea from the IMF's bailout program, the country has been integrated more deeply than ever into the capitalist world economy. Two things stand out clearly. One is the neo-liberal shortfall that substitutes the state for the market. The country's industrial and financial policy has been subjugated to global market forces. The full opening up of the national economy might result in the denationalization of capital accumulation. The other is the social and political consequences of restructuring that are related to deepening class divisions and power dislocation. Ironically enough, the IMF has upheld the State and used the state to weaken itself at one and the same time. There will not be much room in the future for the state to maneuver its development strategy against the interests of the core countries.

In order to look critically at the outcomes of the restructuring package in South Korea for the last two years, we need to put the country's recent macroeconomic recovery in the context of its whole development.[6] In 1999, the country was number one among the 29 members of the Organization of Economic Cooperation and Development (OECD) in terms of economic growth. An annual growth rate of 10.3 percent is remarkable by any international standards. South Korea has now become the thirteenth largest trading country in the world, with the total volume of exports and imports valued at $263.4 billion. As of now, its usable foreign reserve has reached $90 billion, jumping up from $4 billion at the peak of the economic crisis in 1997. Its total external liabilities have decreased to $136.4 billion at the end of 1999 from $148.7 billion in 1998.

Nevertheless, South Korea's public debt has radically increased from $68 billion in 1998 to $90 billion in 1999. If we include loans guaranteed by the government, the number increases to $171.9 billion. Since financial institutions still suffer from a non-performing debt of $76 billion (the figure amounts to 12.3% of their total lending), the government is required to invest a large amount of public funds to expedite restructuring. The national debt that is composed of treasury bills, overseas borrowings, and government guarantees will likely reach the dangerous level of 50 percent of the Gross National Product (GNP) by the

[6] The statistics are, unless otherwise indicated, from the National Statistical Office, the Ministry of Finance and Economy, and the Korea Development Institute.

end of 2000. In 2000, commercial banks were liable for the repayment of $18.4 billion, twice last year's total, and South Korea will face the increased problem of a debt service payment due to the growing short-term debt among external liabilities. The top 30 chaebol groups are said to have achieved the debt-to-equity ratio of 164.1 percent at the end of 1999, less than half of 295.4 percent a year earlier. The number could be much higher, since if we count overlapping investments among subsidiaries, the debt-to-equity ratio would be around 300 percent.[7] The chaebol groups continue to subsidize their sister companies by cross-loan payments. While the top 30 chaebols' total debts have decreased, their total assets have increased. Of particular importance, the big fours'--Hyundai, Samsung, LG, SK-- weight of total assets among the 30 chaebol groups accounted for 57.6 percent with their share of 68.2 percent among total sales. This explains that the 'big deal' programs have helped to enlarge the big four while the 'workout' programs have not succeeded in removing malignant bank loans for the rest of the chaebol groups.

A big concern for the South Korean economy is increasing dependency on foreign capital and technology on the one hand, and worsening social disparities among classes and groups on the other. The share of foreign investment in the country's securities amounted to nearly 30 percent, with a total of $75.3 billion at the middle of 2000. A total of $77.72 billion worth of foreign capital moved in and out of the local securities market in 1999, representing 2.7 times the volume of exchange in 1998. That total inflow surpasses total outflow by a small margin indicates foreign investors' good share of profits in the securities market. The huge inflow and outflow of foreign capital represents a potential threat to the domestic economy because of its influence on the foreign exchange rate and stock price.

Despite the booming economy, there is a widening gap between the “haves” and the “have-nots.” In terms of the Gini index, the year 1999 marked 0.3204, up from 0.3157 in 1998 and 0.2830 in 1997, the highest figure since 1979. During 1999, the monthly income of white-collar workers was 1.7 times higher than that of blue-collar workers, with the respective ratio of 1.63 in 1998, 1.56 in 1997, 1.57 in 1996, and 1.52 in 1996. At the beginning of 2000, the number of unemployed was reduced to 1.04 million from 2 million in 1998, representing a five percent unemployment rate. Despite declining unemployment, temporary and daily workers represent more than half of those employed. This shows the decreased share of regular workers in the labor force. Now, the relative poor amount to 7.5 million, 12.0 percent of the total population.

South Korea gained a trade surplus of $39.04 billion in 1998 and $23.94 billion in 1999 respectively. This big trade surplus is mainly due to decreased imports rather than increased exports.[8]

It is expected that exports will increase less than imports in the coming years. As a result, the current account surplus is likely to drastically decrease from $25 billion of 1999.

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[7] The foreign banks in Seoul cast doubt on the chaebols' decreased debt-to-equity ratio on the grounds of inaccuracy of balance sheets due to the exaggerated amount of receivables and stock values (Korea Times December 7, 1999).

[8] The country's trade condition has continued to worsen as the import unit price has skyrocketed while the export unit price has fallen. For example, the terms of the trade index decreased from 89.2 in October 1997 to 83.9 in October 1998, and then to 80.6 in October 1999, and then to 72.3 in February 1999. In contrast, it reached 100 in 1995 (Bank of Korea).

**Table 1.** Macroeconomic Indicators of South Korea: 1995-1999

| | | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|
| National Account | GNI (billion$) | 488.1 | 518.3 | 474.0 | 313.0 | 402.0 |
| | Annual GDP Growth Rate | 8.9 | 6.8 | 5.0 | -6.7 | 10.7 |
| Trade | Exports (million $) | 125,058 | 129,715 | 136,164 | 132,313 | 143,686 |
| | Imports (million $) | 135,119 | 150,339 | 144,616 | 93,282 | 119,752 |
| | Trade Balance (million $) | -4,444 | -14,965 | -3,179 | 41,627 | 28,716 |
| | Exports/GNI (%) | 25.6 | 25.03 | 28.73 | 42.27 | 35.73 |
| | Imports/GNI(%) | 27.7 | 29.01 | 30.51 | 29.80 | 29.78 |
| Foreign Debt | Foreign Debt (million $) | 127,491 | 163,489 | 159,273 | 148,705 | 136,446 |
| | Foreign Reserves (million $) | 32,712 | 33,237 | 20,405 | 52,041 | 74,055 |
| Government Finance | Deficit or Surplus (million $) | 863 | 359 | -4,789 | -16,391 | - |
| | Debt (million $) | 26,281 | 28,073 | 39,204 | 57,008 | 75,038 |
| Large Enterprise[1)] Finance | Equity to Total Assets (%) | 27.2 | 24.9 | 20.4 | 25.3 | - |
| | Debt Ratio (%) | 268.3 | 301.6 | 390.0 | 295.4 | 164.1 |
| | Unemployed (thousands) | 420 | 426 | 556 | 1,461 | 1,353 |
| | Unemployment Rate (%) | 2 | 2 | 2.6 | 6.8 | 6.3 |

[1)] The top 30 *chaebol* groups.
Source: National Statistics Office, *KOSIS Database*, 2000; International Monetary Fund, *International Financial Statistics*, 1999; Bank of Korea, *Economic Statistics Database*, 2000*;* Korea Development Institute, *KDI Economic Outlook*, *2000 1st Quarter*, 2000.

## 3. SOCIAL AND POLITICAL CONCOMITANTS OF STRUCTURAL ADJUSTMENT

South Korea is formally entering its second stage of structural adjustment[9] after two and three years of hardship in reorganizing the financial, corporate, labor, and public sectors. As the outcomes of the first stage of structural adjustment are in question, there is also doubt as to whether the second stage will be able to be implemented as intended. As a matter of fact, the second structural adjustment is very sluggish. There are some reasons for this. The present government has lost its willingness and ability to spur the horse of restructuring harder. In a single five-year presidential system, it is not easy to further restructuring in the latter half of the presidential tenure. Since President Kim Dae Jung has already declared the economic crisis over for his own political reasons, moral hazard is also widespread among almost all corners of society. Although South Korea must guard against complacency in order to complete restructuring, the dramatic South and North reunification talk has encouraged people to harbor the illusion that everything is all over. However, time is running out for the country to complete its restructuring.

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9 The second stage of structural adjustment is focused on financial and corporate restructuring.

The main problem involved in South Korea's structural adjustment programs is that it is nothing but patchwork. The Kim Dae Jung regime attempts to put 'Band-Aids' on the wounds, not to find and get rid of the source of the weaknesses. The reform package lacks a long-term perspective on how to change the country's economy fundamentally to prevent recurring economic crisises. It does not change the system as a whole but modifies part of the system; therefore, an economic crisis can happen anytime. In this sense, structural adjustment under the neo-liberal outlook offers one option for coping with the economic crisis, but it is unlikely to be the best one. As shown in the adjustment programs based on neo-liberal market reform in many Latin American countries, economic adjustment can create social unrest and political cleavages in return for only partially solving economic crisis. In this regard, we would like to point out some deficiencies of South Korean restructuring in the financial, corporate, labor and public sectors (Lim and Hwang 2000).[10]

First, in agreement with the IMF, Korea opens wide to the world virtually in every field. In addition to the opening of the commodity and capital markets, Korea has opened up the assets and service markets. To some degree, the opening is inevitable and necessary for the revival of domestic economy, but a proper safeguard is also required for the control of foreign penetration. Opening without any safeguards can result in the national economy's dependence on transnational capital and companies.

Second, neo-liberal programs can result in weakening the power of the state. It is well known that the IMF uses the state to execute adjustment programs on the one hand, but replaces the role of the state by the market on the other (Hoogvelt 1997: 169). The South Korean government has already accumulated excessive public debt by taking over debts from the private sector. At the same time, the public sector is shrinking fast due to the downsizing and privatization of state enterprises following the adjustment programs. These factors dramatically reduce the power of the state to fight against the business cycle or to provide welfare for needy people.

Third, structural adjustment programs may be suitable to the American economy, but their relevance to the South Korean economy has not yet been proven. American capitalism led by the private sector depends on the autonomy of the market for investment, production, distribution, and consumption. However, the American style of market-led capitalism might worsen a distribution structure of wealth in South Korea that is already in bad shape by separating the 'fits' from the 'misfits' in the market.

Fourth, the most important goal of adjustment seems to be the strengthening of national competitiveness, especially the competitiveness of companies. Instead of reforming the political structure to break cozy relationship between politics and business and to prevent their rent-seeking behavior, current adjustment programs stress too much the importance of competitiveness and productivity. This tendency will result in strengthening capital and weakening labor.

Fifth, the adjustment programs lack an industrial and financial policy for the future. There is no serious idea about how to fix the current problematic industrial structure. Most Korean companies export assembled products using American and Japanese parts; therefore, deepening dependency and low profits are inevitable. The adjustment programs cannot change the role of the Korean economy as a 'subcontractor of the developed countries' in the global market.

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[10] We contend that the IMF's structural adjustment programs are not the best solution for South Korea. It is, however, another question that the country falls short of even the IMF's restructuring.

### 3.1. Restratification

The past experiences of developing countries manifest a restratification of power and wealth along the lines of neo-liberal restructuring. Since it is supposed to incur fundamental changes in relations between the state and society, structural adjustment entails a new pattern of accumulation that has significant implications for social and political realignment in terms of power distribution and class coalition.

South Korea is in the throes of drastic class differentiation generated by neo-liberal structural adjustment. Social disparities thus differ substantially in eras of the pre- and post-economic crisis. Before the crisis, there had been a growing middle class on the one hand, and an increasing working class on the other. After the crisis, structural adjustment has tended to shrink both the middle class and the working class. This is mainly due to massive layoffs and resulting unemployment in the process of restructuring.

Table 2 shows the general trend of unemployment after the economic crisis. Company insolvency, shutdown, and downsizing have contributed to the increased unemployment. If we include those who work less than 15 hours per week in the unemployed, the number of unemployed reached 2 million in 1998, representing a 10 percent of the unemployment rate. Thanks to government-initiated public work programs and the general economic recovery in 1999, the number of unemployed has since decreased to a considerable degree. One should bear in mind, however, that the neo-liberal restructuring has divided the fits and the misfits in a labor market characterized by more flexibility and specialization. Acceleration of employment has in fact resulted in an increase in contingent workers rather than regular workers. As of now, temporary and daily workers account for 52.9 percent of the total workforce, surpassing regular workers at 47.1 percent.

**Table 2**. Trend in Unemployment

| | 97 3/4 | 97 4/4 | 98 1/4 | 98 2/4 | 98 3/4 | 98 4/4 | 99 1/4 | 99 2/4 | 99 3/4 | 99 4/4 |
|---|---|---|---|---|---|---|---|---|---|---|
| Unemployed (1000) | 470 | 561 | 1,179 | 1,481 | 1,597 | 1,587 | 1,749 | 1,435 | 1,220 | 1,011 |
| Unemployment Rate (%) | 2.2 | 2.6 | 5.6 | 6.8 | 7.4 | 7.4 | 8.4 | 6.6 | 54.6 | 4.6 |

Source: National Statistics Office, *KOSIS Database*, 2000.

Deteriorating income equality is clearly revealed in Table 3. The income share of the wealthiest 20 percent climbed from 37.5 percent in 1995 to 39.8 percent in 1998, while the income share of the poorest 20 percent declined from 8.5 percent to 7.4 percent during the same period. During this time span, the income share of the wealthiest 20 percent had increased from 4.41 times to 5.38 times the income share of the poorest 20 percent.

**Table 3**. Changes in Income Distribution

| Year | Overall Size Distribution of Income(%) | | | | | | |
|---|---|---|---|---|---|---|---|
| | I. Lowest 20% | II. Second Quintile | III. Third Quintile | IV. Fourth Quintile | V. Highest 20% | Ratio(V/I) | GINI Coefficient |
| 1995 | 8.5 | 13.5 | 17.5 | 23.0 | 37.5 | 4.41 | 0.284 |
| 1996 | 8.2 | 13.3 | 17.5 | 23.1 | 37.2 | 4.62 | 0.291 |
| 1997 | 8.3 | 13.6 | 17.7 | 23.2 | 37.2 | 4.49 | 0.283 |
| 1998 | 7.4 | 12.8 | 17.1 | 22.9 | 39.8 | 5.38 | 0.315 |

Source: National Statistics Office, *KOSIS Database,* 2000.

We can give here a crude picture of the changing class structure in Table 4. Not only the upper class but also the lower class has increased in size, while the middle class has diminished. As a result of structural adjustment, a three-tier society is emerging in which there is a bottom 15 percent of economically inactive workers who are unemployed or marginalized, a middle-upper 50 percent of workers secure in their jobs and a middle-lower 15 percent of workers insecure in their jobs, and a top 20 percent who hold tenured jobs. The neo-liberal logic of accumulation has a tendency to social fragmentation: a new small entrepreneurial class engaged in information technology industry has emerged, while a large underclass has appeared in the form of the unemployed or the underemployed. Coinciding with this polarization of society, we can also see a process of proletarization in that the number of people who sell their labor power without control over the means of production has increased by a large margin.10). For a debate on the proletarization thesis in South Korea, see Koo's (1990) pioneering study.

**Table 4**. Class Structure in Terms of Income (percentage)

| | | 1997 | | 1998 | | 1999 1st Half | |
|---|---|---|---|---|---|---|---|
| High Income | | 21.8 | | 22.9 | | 22.9 | |
| Middle Income | Upper | 68.5 | 54.8 | 65.4 | 1.6 | 65.1 | 51.4 |
| | Lower | | 13.7 | | 13.8 | | 13.7 |
| Low Income | | 9.7 | | 11.7 | | 12.0 | |

Source: Kyung-Joon Yoo, “Changes in Income Distribution and Poverty in South Korea After IMF Bail-out,” Korea Development Institute, Working Paper 2000-01, 2000.3.

### 3.2. Coalition Change

The Kim Dae Jung regime is the first government elected through a horizontal transfer of power unprecedented in the nation's history. As the second civilian government, it was charged with the economic and political projects of carrying out restructuring and consolidateing democracy.

South Korea is characterized by a strong state and a weak civil society, and political parties do not function to mediate diverse interests among classes, groups, and sectors. Political parties have not yet become mass parties in that parties are created by and remain at the disposal of individual political leaders; the so-called "three Kims" are virtual "owners" of the region-based elite parties. After the transition to democracy, there is no tutelage power such as the military or the business that exerts a substantial influence behind the scene. But the establishment of procedures consonant with democratic governance is limited in that the electoral system does not work in terms of policy lines (Valenzuela 1992: 71-73). Linkages between parties and citizens are not stable, and a majority of citizens question the legitimacy of parties and elections. This is well evidenced by the low voting rates shown in the recent general and local elections. In the general election of 2000, voter turnout was 57.2%. Only 19.2 million out of the 33.5 million electorates voted in this election, and this rate is the lowest in Korean election history. In interviews, most voters who did not vote said they were fed up with politics (Korea Herald, April 15, 2000).

Democratic consolidation has a long way to go, as neither 'horizontal accountability' on the basis of separation of powers nor the state's 'vertical accountability.' over the civil society is fully established (O'Donnell 1996: 34-51). In South Korea, democracy is 'stalled,' 'delayed' or 'partially institutionalized.'

The dominant view on restructuring is that a market economy is wholly compatible with democracy (Haggard 1992: 341). Unlike in Western countries where the emergence of market relations contributed to the destruction of a traditional status hierarchy and arbitrary state power, however, in developing countries, restructuring provides a source of tension between capitalism and democracy. This is mainly due to the fact that restructuring tends to deepen existing social disparities by polarization and dislocation. Structural adjustment can bring about social unrest and political instability.

Both South Korea's economic boom and its economic crisis over the past few decades are inherent in the process of dependent development in which both 'factors of success' and 'factors of failure' are intermixed. Dependent development in South Korea has relied upon the double alliance of the state and local capitalists (Lim 1985). This is strikingly different from the experiences of Latin American countries in which the state, local capitalists and transnationals constituted a triple alliance. Please refer to Evans' seminal work on the case study of Brazilian dependent development (Evans 1976).

In South Korea, the state's nationalistic logic of capital accumulation has prohibited transnationals from participating in the process of dependent development. Thus, the dependent development has proceeded by class confrontation between local capitalists, and workers and farmers.

Under restructuring, good governance means that “the state is bad, and the market is good.” In South Korea, however, the growing influence of the market does not imply the weakening hegemony of the state. Clearly, we can witness the “orthodox paradox” in the process of restructuring. It is very ironic that the state is used to exert control over macroeconomic behavior by the IMF and is at the same time, doomed to be disintegrated by the exigencies of the global market.

When South Korea faced economic crisis, the national accounts were quite sound. In order to recapitalize financial and corporate sectors, however, the state has poured a lot of public funds into those sectors, resulting in increased national debts. As shown in Table 5, the state liabilities of the central and local governments have jumped from 54.6 billion dollars in 1997 to 89.4 billion dollars in 1999, and the payment guarantees of the government have climbed from 10.8 billion dollars to 69.1 billion dollars in the same period. By the end of 2000, the government poured the sum total of 160 billion dollars into the financial sector. Our concern is that most of the huge public funds are not retrievable. The privately-incurred debts have been nationalized under the responsibility of the state.

**Table 5**. National Accounts and Public Debts, 1996-1999

| | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|
| Balance of national accounts (billion dollar) Percentage as GDP | 0.9 (0.3) | -5.8 (-1.5) | -15.7 (-4.2) | -11.5 (-2.9) |
| Central Government Debt (billion dollar) Percentage as GDP | 30.7 (8.8) | 42.0 (11.1) | 59.5 (15.9) | 74.7 (18.5) |
| Local Government Debt (billion dollar) Percentage as GDP | 10.8 (3.1) | 12.6 (3.3) | 13.5 (3.6) | 14.6 (3.6) |
| National Debt (2+3, billion dollar) Percentage as GDP | 41.4 (12.0) | 54.6 (14.4) | 73.0 (19.5) | 89.4 (22.1) |
| Government Guaranteed Debt (billion dollar) Percentage as GDP | n.a. | 10.8 (2.9) | 60.0 (16.0) | 69.1 (17.1) |

Source: Ministry of Economy and Finance, *Economic Statistics Database*, 2000.

It would be capital rather than labor that would benefit most from restructuring. The political economy of South Korea is well known for having an established partnership between government and business at the exclusion of labor. Moreover, business has considerably unified with the centralized leadership, while labor is severely divided into the dispersed organizations that differ in terms of political ideology. Under these circumstances, characterized by centralized business organizations and decentralized labor movements, the state tends to bargain more with capital than labor on an unequal basis (Hall 1986: 269-270). Restructuring is mainly geared to increase productivity rather than to achieve equality. With the state's upper hand, structural adjustment will likely reinvent capital of more independent bourgeoisie and neutralize labor of less organized workers.

Behind the visible economic recovery have been foreign capital inflows. Table 6 indicates that foreign investment funds and financial institutions held 28.4 percent of South Korea's stock market. Many of these foreign investments are private and short-term ones that are quite liquid and volatile. This is why we are again talking about the possibility of another economic crisis.

Transnational companies and investors have gradually been emerging as key economic actors. It is not likely in the foreseeable future that the state's role will be eroded by transnational activities. However, restructuring in the midst of growing globalization will limit the state's capability to manage and coordinate industrial and financial policy.

**Table 6.** Share of Foreign Investors in Local Security Market

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000.6 |
|---|---|---|---|---|---|---|---|---|---|
| % share | 2.7 | 7.6 | 8.0 | 10.0 | 10.5 | 12.3 | 16.4 | 21.9 | 28.4 |

Source: The Ministry of Economy and Finance, *Economic Statistics Database*, 2000.

Structural adjustment is double-edged, for it is the process of both fragmentation leading to a loosening of social ties and mobilization based on social movements. These paradoxical consequences of neo-liberal reforms can be exemplified by the growth of a civil society. Unlike in Western societies, in South Korea, new social movements have gone hand-in-hand with old social movements in articulating voices from the people. Non-Governmental Organizations (NGOs) now stand as another key actor in channeling old and new social demands.

Restructuring is a very complicated process in which an old development alliance is changing into a new one. Combined with a democratic transition, it has created new opportunities for popular participation that also provide an opportunity to challenge the new development alliance. The old development alliance between the state and the local capitalists are changing into the new development alliance between the transnationals and the state, with the local capitalists in weak position, more excluding the working class and the farmers.

## 4. MEXICAN RESTRUCTURING: A COMPARATIVE NOTE

The Mexican experience offers very interesting insight into the effectiveness of IMF stewardship in helping a recipient country escape from economic crisis. Mexico, one of the leading debtors in the world, received the IMF's relief finance in 1982 and again in 1994 due to the fiscal moratorium.

International development agencies hailed Mexico under the Salinas regime as evidence of the effectiveness of IMF's restructuring. However, the Peso crisis in November 1994 resulting from an undisciplined open market policy and reckless massive reform raised questions about the feasibility of IMF's structural adjustment programs. This was offset by the new optimism emerging after the Zedillo regime's depressive 1995, since the growth of the economy reached 5.1 percent in 1996. Once again, Mexico is presented as a model of successful IMF restructuring.

Instead of evaluating reform policies separating from changes in the current trends of the economy, we have to discuss the restructuring process that has taken place since 1982 within a comprehensive context.

Opening domestic market to international competition is inevitable in the era of globalization. What really matters is the strategy used to achieve the optimum results of market opening with a minimum social cost. From the administrations of de la Madrid to the Zedillo, Mexico made an attempt to escape from the foreign debt crisis and to make its economy more competitive by adapting extensive reform packages, leading to the speedy opening of the domestic market. Following this policy, Mexico became a member of the General Agreement on the Trade and Tariff (GATT), the North American Free Trade Agreement (NAFTA), and the Organization for Economic Cooperation and Development (OECD) in 1994. Unfortunately, however the last ten year blitz of the IMF's restructuring and market opening did not make Mexico belong to the 'First world' or 'Primermundializacion.' This discussion is heavily indebted to the discussion of Lee (1999).

First, Mexico did not escape from the trap of foreign debt in the last 15 years and eventually experienced an unprecedented Peso crisis due to the excessive market opening policy in which the country depended on short-term foreign capital. At the peak of the foreign debt crisis of 1983, the total foreign debt was 93.8 billion dollars and the ratio of the balance of foreign debt to the GNP was 66.6 percent. In 1996, the numbers are 169 billion dollars and 56.3 percent, respectively. It is very hard to say that the restructuring has been successful, considering that the result was achieved by pouring large amounts of money earned from selling huge amounts of petroleum over the last 15 years and selling more than 1,200 state-owned corporations.

Second, the countervailing power of domestic capital against transnational capital has been weakened due to the withdrawal of the state from the triple alliance, and, accordingly, the dependency has deepened. The share of exports by foreign companies in the non-petroleum product jumped to 56% in 1988 from 23% in 1982. In addition to the volume, the exports by foreign companies are characterized as the high value-added products. Recently, transnational capital has penetrated into the financial and petrochemical sectors. So the influence of foreign companies is growing in the Mexican market, and this tendency is strengthened by the effectuation of NAFTA.

Third, the last 15 years of structural adjustment has induced a serious imbalance in the Mexican national economy. It is no longer the traditional problem of the disparity or unequal relationship between large enterprises, and small-and medium-sized enterprises: many small- and medium-sized firms have gone out of business due to the rapid market opening. The current Mexican employment structure reflects this situation. According to the International Labor Organization (ILO), the informal sector accounts for 60% of the total employment, while the large corporation and government sectors account for 18% and 22% of the total employment, respectively. The growing proportion of employment in the informal sector is a side effect of the market opening and also reflects the division of Mexican society into integrated and excluded sectors.

Fourth, the effect of restructuring on employment and wages is very negative. Annually, one million new workers flow into the Mexican labor market, yet there were only 583,000 new jobs between 1988-1992. New jobs in the formal sector numbered 26,000 between 1992-1996, but more than 2.6 million workers were absorbed by the informal sector. Job creation by NAFTA is merely an unfulfilled promise, as the rate of unemployment and half-unemployment is growing. In addition, more than one million workers annually migrate illegally to the U.S. looking for jobs. The real value of wages dropped by 67% between 1982-1993. Between January 1994 and April 1997, real wages dropped once again by 19%, when the NAFTA, economic crisis and austerity programs were in place. According to the Mexican Central Bank, the real minimum wage of 1982 was 40.81 pesos (adjusted to 1994 peso value), but it dropped to 11.36 pesos in April 1997. This meant that 72% of wages were lost for the last 15 years. To make the situation worse, purchasing power has dropped by 65.7% since the foreign currency crisis hit Mexico in December 1994 (Torres 1997: 63-71; Acosta 1999: 4).

The integrity of the national state of Mexico is also threatened, as economic imbalance appears in the form of an insufficient growth rate, rising unemployment and underemployment, growing number of low waged workers, and increasing foreign debt. Northern border cities became auxiliary cities of the U.S. economically, and their functional relationship to other parts of Mexico has decreased. Integrated transportation systems connecting northern Mexico to the central U.S. started a discussion on the possibility of the birth of a new geographical unit, “Mexamerica.” In recent years, the U.S. has intensified its efforts to control the transportation line connecting the U.S. and Mexico by purchasing part of the Mexican railroad between central Mexico and Chicago. If America succeeds in privatizing the national Mexican petroleum industry, a U.S. demand since the effectuation of NAFTA, Mexico would return to a situation almost identical to that before the Mexican revolution.

The world media has observed the development of Mexican society with great interest in the last 15 years. However, recently the focus has shifted to the dragging negotiations with Chiapas peasant guerrillas, the massacres, the recurring scandal of connection between politicians and drug dealers in the last four or five years, and the deteriorating public peace and order. Now the European Union (EU) demands a solution to the Chiapas problem and democratization as preconditions in the free trade negotiation. These facts show the side effects of the neo-liberal restructuring taken by the Mexican government in the last 15 years. The U.S. State Department and the Canadian Department of Foreign Affairs and International Trade warned their nationals to avoid traveling to Mexico. The street of Mexico City and coast cities became very dangerous for rich people and foreign travelers. Leftist guerrillas are active in 4 or 5 states and police failed to deal with the drug problem because of internal corruption. Instead, the role of the military in the public security is growing.

**Table 7.** Mexico: Major Economic Indicators

| | | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|
| Labor Market | Unemployment Rate (In Percent: index 1990=100) | 3.4 | 3.7 | 6.2 | 5.5 | 3.9 | ¡ ¦ | ¡ ¦ |
| Exchange Rates | Exchange Rate (Nevos Pesos/ US$, End of Period: index 1990=100) | 3.1 | 5.3 | 7.6 | 7.9 | 8.1 | 9.9 | 9.5 |
| | Real Effective Index | 80.5 | 85.7 | 115 | 105.8 | 91.2 | 94.4 | 89.9 |
| Prices | Consumer Price Index (Average Annual Growth Rates in Percent) | 9.7 | 6.9 | 35 | 34.4 | 20.6 | 15.9 | 16.6 |
| International Liquidity | Reserves (Millions of US$) | 25,110.00 | 6,278.00 | 16,847.00 | 19,433.00 | 28,798.00 | 31,799.00 | 31,782.00 |
| National Accounts | Gross Domestic Product (Millions of 1990 US$) | 292,546.10 | 306,895.00 | 286,048.70 | 301,046.10 | 322,186.20 | 338,069.70 | 350,635.00 |
| | GDP Per Capita (Millions of 1990 US$) | 3,325.30 | 3,415.40 | 3,138.40 | 3,246.90 | 3,417.30 | 3,527.80 | 3,601.20 |
| | GDP Annual Growth Per Capita (in Percent-Constant Prices) | 0.1 | 2.6 | -7.8 | 3.3 | 5 | 3.1 | 2 |
| External Trade | Exports of Goods(fob) (Millions of US$-Customs Basis) | 51,886.40 | 60,618.60 | 79,540.70 | 95,661.20 | 110,046.90 | 117,325.40 | ¡ ¦ |
| | Imports of Goods(cif) | 65,187.60 | 79,197.90 | 73,937.90 | ¡ ¦ | ¡ ¦ | ¡ ¦ | ¡ ¦ |
| Balance of Payments | Capital and Financial Account Balance (Millions Of US$) | 32,585.00 | 14,587.00 | 15,472.00 | 4,076.00 | 15,769.00 | 17,464.50 | 14,145.90 |
| External Debt | Total Debt (Millions of US$) | 131,566.40 | 140,001.70 | 166,779.90 | 157,847.90 | 149,689.80 | 152,944.00 | 156,000.00 |
| | Debt to GDP Ratio (in Percent) | 32.7 | 33.3 | 58.3 | 47.4 | 37.3 | 36.3 | 32.3 |

¡ ¦Not Available

0.0 Indicates that the amount is nil or negligible

Sources and Notes:

| | |
|---|---|
| Labor Market | Unemployment Rate: Total urban rate. ECLAC<br>Real Minimum Wage Index: Base year 1999. ECLAC |
| Exchange Rate | IMF. *International Financial Statistics (IFS)*. Market rate<br>Real Effictive Index: IDB estimates based on data from the Bvanco de Mexice, *Direccion de Operaciones Internacionales*. |
| Prices | IMF. *IFS*. Annuas figures are expressed as average annual growth rates: monthly figures as a twelve months variation. |
| International Liquidity | IMF. *IFS*. |
| National Accounts | GDP in 1999 US Dollars: IDB estimates. |
| Balance of Payments | GDP by Type of Expenditure and Sector of Origin: Instituto Nacional de Estadistica, Geografia e Informatica. Government is included in Other Services.<br>Blanco de Mexico and IMF, *Balance of Payments statistics*. For Trade Balance, Exports of Goods (FOB) and Imports of Goods (FOB) include goods for processing. |
| External Debt | World Bank, *World Debt Tables and Estimates*. |

The Mexican case is more a failure than a success in overcoming economic crisis. Mexico could not rebuild a stable and sound economy while being grafted to the global economy. Rather Mexico deepens its economic dependency on the U.S., destroying the integration of the nation state and resulting in a worsening poverty problem. On the surface, it looks like democratization has progressed due to the loosening hegemony of the Institutional Revolutionary Party (PRI). It is against this backdrop that Vicente Fox of the National Action Party (PAN) has defeated the PRI candidate in the July 2000 presidential election.

Paradoxically, however, radical mobilization of civil society is also in progress due to the gradual destruction of the civil organizations and public security. It is necessary for us to discern the bright and dark sides of Mexican restructuring.

Among the many developed and developing countries receiving the IMF-led relief package, there are few cases of success. It is important to remember that the IMF has been an 'arsonist' not a 'fire fighter' when it comes to the blaze of foreign debt (Payer 1991). The IMF demanded that recipient countries adapt policies on the interest rate, public finance, bank reserve, and inflation that were too stringent. Such demands can result in an increase in debt by forcing countries to borrow more money to meet the conditions. Speculative capital is a major culprit of the economic crisis, and control for the capital is urgently needed. However, the IMF did not attempt to control the movement of speculative capital. Uncontrolled movement of large amounts of money still threatens the global economy, especially the economies of developing countries. Historically, almost no Latin American or African country that experienced a foreign currency crisis since the 1980's has escaped from the burden of foreign debt. If East Asian countries including South Korea follow a restructuring package suggested by the IMF that allows for the movement of international capital, not only the private sector but also the government sector will become debtors. In the case of South Korea, financial crisis might be easily transformed into a fiscal crisis. The South Korean state can afford to meet the demand for the public fund for the structural adjustment for the time being; but it is not evident how long the state could do it.

## 5. SUMMARY AND DISCUSSION

Despite a lot of work on economic restructuring, there has been a dearth of research on the social and political consequences of restructuring in South Korea. This paper tries to fill this gap in order to assess neo-liberal, market-oriented structural adjustment programs in a balance sheet.

Most Koreans enjoy a favorite saying that "there is either nothing done or nothing undone." This is readily applicable to the case of South Korea's current restructuring. Contrary to the Kim Dae Jung regime's self-praise, structural adjustment remains precarious. Institutional reforms have been limited in bringing in a systematic overhaul of the development mechanism. Even granting the neo-liberal policy's contribution to recent good macroeconomic performances, increasing dependency, externally, and growing social disparities, internally, have been apparent in the process of adjustment.

Beginning with the 21st century, South Korea has to renovate the present by designing a future reflecting upon the past. It is, however, frustrating that the Kim Dae Jung regime would forget the lessons of the past and may sacrifice the future for the sake of the pragmatics of the present.

Past Latin American experience suggests that the long term effect of adjustment is negative and offsets possible short term benefits (Smith and Korzeniewicz 1997). An extreme example is the case of Mexico. Fifteen years of adjustment in Mexico resulted in low growth with no job creation, excessive unemployment and half-unemployment, a low wage, social disintegration and growing foreign debts. In allowing free mobility of foreign capital and investment through a market-friendly structural adjustment, Mexico may lose its national identity and experience social unrest and political unstability.

We have argued in this paper that the neo-liberal structural adjustment would not be a good choice for South Korea. At the present moment, however, there are no other better alternatives available to the country. Considering the past experiences of the Japanese model of state-initiated capitalist development and the Scandinavian model of social-democratic development, it has now turned out that the former is no more adequate and the latter is no more effective. In a sense, South Korea was a contested terrain between the Japanese model as a reality and the Scandinavian model as an ideal.

Thus one option before us is to design a future based on the past: "Where we have stood" should tell us "where we have to go". It is useful to foresee that restructuring could replace the existing state-centric development with a new market-driven development. International development experiences over the past century have shown that there are wide variations of capitalism in terms of state role, production system, market function, industrial relation, welfare service, etc (Hollingsworth and Boyer 1997). It would be wise to work out a grand design relevant for the country based upon its own development ideals. A grand design we suggest is a revised development paradigm based on a stakeholder model of society where all the social members are supposed to be winners by sharing responsibility for production and distribution. It is our next task to elaborate on the stakeholder model of development feasible for South Korea in particular and developing countries in general.

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*Hyun-Chin Lim. Depatment of Sociology, College of Social Sciences, Seoul National University, San 56-1, Shilim-dong, Kwanak-gu, Seoul, 151-742, Korea. Tel: +82-2-880-6412(O). E-mail: hclim@plaza.snu.ac.kr*
*Suk-Man Hwang. Department of Sociology, College of Social Sciences, Changwon National University, 9 Sarim-dong, Changwon, 641-773, Korea. Tel: +82-55-279-7743(O). E-mail: unified@sarim.changwon.ac.kr*