Capitalist Maturity and South Korea’s Strategic Choices

By Anthony P. D’Costa

South Korea’s success in rising out of the rubble of the Korean War to become one of the world’s leading economies in the space of three decades brought the country to what can be called capitalist maturity. But, as Anthony P. D’Costa argues, that is both a marker of economic success and a warning of impending challenges.

HISTORIANS, economic or otherwise, have attempted to explain the rise of nations. The narratives offered are often complex, driven by large-scale phenomena combined with a plethora of details. There are manycontending explanations: changing agro-climatic and geographic factors that work for or against expanding output and efficiency; institutional arrangements that either thwart innovations or encourage them; or some combination of these factors, along with cultural explanations and acts of gods and war to boot.

Whatever the reasons, one inescapable fact is that sustained economic prosperity means growing economic maturity, which also signals an impending slowdown as home markets become saturated. Furthermore, in a dynamic context, economic maturity is accompanied by considerable social change, and thus changing social expectations.

South Korea’s rise since around 1962 could be attributed to its geographic position (next to North Korea), homogenous culture, hard-working population, economic governance exercised by authoritarian governments and a conducive geopolitical environment. It has economically matured, having raised its per capita income five-fold since the 1950s, when it was estimated to be lower than India’s. In the OECD’s Program for International Student Assessment (PISA) tests, South Korea ranks highest in a number of areas, well above the US and OECD averages.1 Nearly 100 percent of the relevant cohort completes upper secondary education and 63 percent of 24-35 year olds complete tertiary education. South Korea’s economic growth and subsequent structural transformation have been spectacular, moving from low-wage, labor-intensive industries to increasingly complex, capital- and technology-intensive ones.

Today, the country vies to be a world leader in innovation, focusing its energies on knowledge-intensive sectors, including cultural industries. Politically, it has moved away from authoritarianism to a more spirited, people-driven democratic system and has elected its first female president.2 Socially and culturally, South Koreans, notwithstanding their strong ethnic identity, are also embracing the idea of a multicultural society. In short, it seems to have achieved it all in just five decades.

However, what is less obvious is that social demands have increased while the growth in income has not kept pace with social spending on education, healthcare and welfare. Additionally, labor markets are in turmoil, with the rapid increase of temporary, part-time and contract workers impacting the community as a whole. The broader narrative can mostly explain the rise of South Korea, we don’t have a narrative that explains how to sustain an upwardly mobile economy as new competitors, saturated markets, and domestic economic and social demands increase.

This brief essay asks, what does a country do after it becomes prosperous? To put the question another way, what are some of the emerging challenges that successful development poses for South Korea and how might it tackle them? I use the concept of capitalist maturity to denote South Korea’s current state of prosperity and its impending challenges. These are reflected in the various external and internal responses that are already under way, such as economic and business engagements with Asia and domestic social policies.

2 There are, of course, areas of “freedom” in which South Korea falls short, such as freedom of expression and state control over media (see Haggard and You, 2014).
3 I deliberately leave out the discussion on North Korea and possible reunification, acknowledging that costs will be high, but the wider benefits are likely to be substantial.

CAPITALIST Maturity AND LESSONS FOR KOREA

Today, markets worldwide have become accepted social institutions for governing and dictating economic life and prosperity, albeit unevenly. The globalization of markets, often with the explicit or tacit support of national governments, is integral to contemporary economic development (D’Costa 2012). Since businesses (or capitalists) create and work the markets to their advantage, capitalist maturity means businesses are experienced in their investment, technological, entrepreneurial and hiring decisions. Economic prosperity, when reflected in the structural sophistication of the economy, whether manufacturing or services, captures this maturity.

Accompanying capitalist maturity is the inevitable saturation of domestic markets, at least within the current techno-economic paradigm. The deepening of markets through rising per capita incomes, and thus rising wages, begins to limit the size of the market. This means that both South Korean business and government must respond with appropriate strategies and policies for trade and foreign direct investment. They must also address inequality, which has risen due to the success of powerful family-owned chaebols to meet the deficits in South Korea’s social welfare.

Two signs of maturity are slower economic growth rates and changing economic structures. For example, growth in both the US and Japan has slowed. South Korea is no exception: from growth of 8-12 percent per year in the 1980s, it declined to between 6 percent and 9 percent in the 1990s, and varied from 0.3 percent in 2009 to 2 percent in 2012.4 South Korea has maintained its industrial dynamism in high-value export-oriented automobiles, shipbuilding and electronics, but its share of services to national income has increased as well, just as it has in the US. Ser-
The challenges inherent in South Korea’s prosperity require an external response through business expansion as a way to expand markets, accommodate migrants and professionals and arrest severe demographic challenges; they also require an internal response that addresses social welfare and income distribution. By resolving the challenges of capitalist maturity, South Koreans will be better placed to enjoy the fruits of their hard-earned prosperity well into the future.

South Korea’s export-oriented industrialization now extends to high-technology products. This is evident from the country’s continued presence in world markets despite rising wages at home and low-wage competition from China (see Figure 1 overleaf). China, the US and Japan remain its three important markets. However, its export surplus has not been substantial, in part because of heavy raw material dependence and high-technology imports from Japan and other OECD economies. Nevertheless, it has been successfully using exports as a way to address domestic market saturation and attain economies of scale vital to maintaining cost competitiveness.

However, continuing exports and industrial upgrading have their limits, while other countries, especially in Asia, are transforming their economies and becoming more competitive.


6 The Scandinavian countries have adopted approaches that limit unbridled capitalist expansion and maintain high social expenditures through high taxes.


Table 1 RAPIDLY AGEING POPULATION IN SOUTH KOREA RELATIVE TO OTHER OECD COUNTRIES

<table>
<thead>
<tr>
<th>Country</th>
<th>Year when the share of elderly (over 65) makes up:</th>
<th>Years elapsed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7% of population</td>
<td>from 7% to 14%</td>
</tr>
<tr>
<td>Korea</td>
<td>2000</td>
<td>18</td>
</tr>
<tr>
<td>Japan</td>
<td>1970</td>
<td>24</td>
</tr>
<tr>
<td>Germany</td>
<td>1932</td>
<td>40</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1929</td>
<td>47</td>
</tr>
<tr>
<td>Italy</td>
<td>1927</td>
<td>61</td>
</tr>
<tr>
<td>United States</td>
<td>1942</td>
<td>71</td>
</tr>
<tr>
<td>Sweden</td>
<td>1887</td>
<td>85</td>
</tr>
<tr>
<td>France</td>
<td>1864</td>
<td>115</td>
</tr>
</tbody>
</table>

The fertility rate has dropped from 6 births per woman in 1960 to 1.2 in 2010 (well below the replacement rate of 2.1). Its elderly population is expected to double from 7 percent in 2000 to 14 percent in 2018, and further increase to 20 percent in the following eight years (see Table 1). South Korea is expected to experience the fastest rate of ageing of any country undergoing rapid fertility decline.3 Capitalist maturity under globalization has also generated inequality. Although there are many sources of inequality, economic inequality under a liberalized capitalist market system results from the differential wealth and income created and received by different social groups. The returns to capital tend to exceed the wage share to labor (Piketty 2014).4 In the early years of South Korea’s rapid growth, the state nurtured the chaebols, but today the state has become the instrument of chaebol influence. The chaebols are gigantic (Samsung’s 2013 revenue was US$214 billion);5 they not only earn a disproportionate share of national income, but families owning chaebol shares wield considerable clout. Many South Korean middle and working class families were hit hard by the financial crises of 1997 and 2008, leading to workers being pushed into the casual and temporary sectors. For example, the share of temporary and contract workers in 2001 was 16.6 percent compared to 28.2 percent in 2007 (OECD 2008: 37). Inequality, though not as bad as in other countries, has crept in due to chaebol growth and job losses. South Korea’s GINI coefficient increased from 27.4 in 1990 to 31.3 in 2006 (OECD 2008: 33).

vices in the US accounted for 83 percent of total non-farm employment in 2010 (D’Costa 2016). In Japan, the share of industry to GDP fell to 25 percent and services rose to 74 percent in 2010. South Korea witnessed its peak civilian employment in industry in 1991, at 36.8 percent, gradually declining to 24.8 percent in 2011, while services employment increased from 38.2 percent to 68.9 percent, respectively, in the period from 1980 to 2011. Japan’s unprecedented manufacturing trade deficit and persistent services deficit should make South Korea economically vigilant (Japan’s Ministry of Internal Affairs and Communications 2013: 119).

Capitalist maturity also has been accompanied by social modernity, entailing declining fertility rates worldwide (Watanabe 1992: 15, 20-26). On this front, South Korea borders on the alarming. While the country’s population has doubled to 50 million since 1960, it is projected to decline to about 43 million by 2050 (OECD 2008: 29). The fertility rate has dropped from 6 births per woman in 1960 to 1.2 in 2010 (well below the
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Asia is a strategic destination for the markets of China and India and resources from Indonesia. However, business expansion internationally is not without its challenges. Foreign markets, institutions, and local cultures unexpectedly throw up impediments. In addition to anticipating these, South Korean businesses undertaking production in Asia must also transfer, adapt and institutionalize their business, labor and managerial practices. Tensions have arisen when implementing South Korea’s hierarchical managerial styles in subsidiaries with local workers and managers. There are also instances when investments, despite the favorable disposition of the host government, have been impeded. POSCO dropped its US$5.3 billion project in Karnataka, India and suspended its US$12 billion steel project in Odisha, due to inordinate delays in acquiring land for the projects (Song and Kazmin 2013).

South Korea also needs to embrace migrants, who come mostly from Asia. The country’s prosperity is already drawing migrant workers from China, Vietnam, Bangladesh, and Nepal, as well as brides for South Korean men from Vietnam and the Philippines. In 2011, 307,249 foreigners arrived compared to 293,070 the previous year. The foreign population roughly doubled between 2005 and 2010, to about one million. Consequently, South Korea is faced with new kinds of social challenges in absorbing, integrating and politically managing foreigners in relatively unskilled 3-D (dirty, dangerous and demeaning) jobs. At the same time, the “global war for talent” pits South Korea against other innovation-driven countries in attracting highly skilled professionals, including students, for the continued expansion of high-technology sectors. However, foreign professionals often find the work and social environment difficult, just as working class migrants and marriage migrants find adjusting to Korean society demanding (D’Costa 2015). Nonetheless, to address the demographic time bomb, immigration is necessary and consistent with South Korea’s aspirations to become a multicultural society.

CONFRONTING THE HOME MARKET AND SOCIETY
Several key areas of intervention will broadly align South Korean domestic policies with its external engagement. First, growth projections of 2.4 percent from 2018 to 2030 are not encouraging (OECD 2014). The rapidly ageing population, the narrowing technological gap of Asian competitors with South Korea, and the declining rate of savings and investment have compounded the challenges. Clearly, new growth engines have to be fostered through innovation and nurturing new sectors such as “green” technologies and high-value services such as cultural industries. While South Korea does well on a number of innovation indices, there are some weak areas. The country’s science and technology innovation capacity in 2012 was ranked 9th among 30 OECD countries, with high marks for innovation activities and resources, but quite low scores in innovation environment (National Science and Technology Commission 2012).

Second, by better mobilizing underutilized labor such as women and the elderly, South Korea could partly address the labor shortage. Currently, the female participation rate is considerably lower than the OECD average. Gradually phasing out the mandatory retirement system could keep senior workers employed, while better vocational education could reduce youth unemployment. Providing affordable childcare services, full-day schooling options, better benefits for parental and maternity leave and encouragement of flexible employment would likely encourage female labor market participation.

Third, treating foreign workers with respect is not only fair but also advantageous to South Korea’s small- and medium-sized enterprises (SMEs), which are vulnerable to labor shortages and international competition.

Fourth, South Korea needs to move away from low-value services for the domestic market to high-value, tradable business services such as healthcare, education, finance, content creation, and software, MICE (meetings, incentives, conventions, and events), and tourism. With 40 Asian cities within a two-hour flight, South Korea could export a wide range of services (Byun et al. 2012). The supply of foreign human capital will be critical to this endeavor.

Fifth, the country needs to share its prosperity better. Inequality between chaebols and SMEs and between regular and informal workers is widely acknowledged. Both productivity and wages in SMEs lag substantially behind large firms (Ministry of Employment and Labor 2012). Only about half of non-regular workers are covered by the various national pension, health and employment insurance schemes, compared to 95 percent of regular workers. Similarly, taming the chaebols without killing the proverbial golden goose needs to be carefully addressed. Moral hazard around chaebols and their supporting banks has led to heavy borrowing, heightened controlling-family interests, and raised both the debt-equity ratio and the level of non-performing assets. Hence, curtailing family management conventions, and events), and tourism. with 40 Asian cities within a two-hour flight, South Korea could export a wide range of services (Byun et al. 2012). The supply of foreign human capital will be critical to this endeavor.

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tices, improving corporate governance to allow non-family members to participate more effectively, and imposing severe penalties on businesses for theft and accounting fraud are key areas of intervention.

Lastly, creeping inequality is a serious concern since South Korea has been relatively egalitarian. Growth in self-employment is exacerbating inequality, while the share of the middle class dropped from 70 percent in 2003 to 64 percent in 2011 (Won et al. 2013). South Korea needs to increase social spending, which is currently less than half the OECD average. Also, enhancing pensions, increasing access to medical care, reducing college tuition, providing free preschool education and better support for after-school day-care, and providing social security will consolidate the drive toward shared prosperity. The dilemma, of course, is funding these programs without increasing the tax burden. Eliminating the underground economy and trimming tax deductions for high-income earners could partly offset the expected rise in public pension spending and help the middle class.

CONCLUSION

Capitalist maturity is both a marker of economic success and a warning of impending challenges. External engagement as well as internal reforms will be crucial to reap the benefits of South Korea’s development. Anticipating foreign work environments, being culturally sensitive, and localizing South Korean operations abroad are likely to help, while engaging with migrants at home would serve a number of economic and social purposes. By sharing prosperity, labor market dualism and creeping inequality could be addressed simultaneously, restoring the balance between the role of the state and big business, and ensuring the future health and sustainability of a more people-centered economy.

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REFERENCES


