

# **The Economics of Social Regulations:**

**An Inquiry into the Causes of Korea's Economic Vulnerability**

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## **Abstract**

This paper aims to clarify a social regulatory mechanism of national economic vulnerability. In the history of economic development, social values and their regulatory institutions exerted powerful influence. Max Weber systematically chronicled set of value systems behind the rise of capitalism. However, social regulatory norms and values that once power economic dynamism can become vital constraining factors in the changed economic circumstances.

The case of Korea presents a classic example where regulatory impact of collective social consciousness became the prime mover of economic juggernaut in the post-World War II era. It worked as a facilitating factor to power mass manufacturing industries by motivating, regulating and mobilizing workforce for a collective nationalist developmental cause. This arrangement worked well. It made Korea to achieve rather quickly the status of an OECD country. However, a notable fact of this economic boom was that it sustained a persistent wide gulf between social and economic development. Conservative growth-alliance between state and business carefully excluded labor that weakened the development of civil society. In other words, economic development in Korea could not weaken the old social authoritarian order rather it helped to strengthen it.

After successfully utilizing the initial growth spurt driven by collective social will and low cost labor advantage, Korea saw a reverse mechanism of this collective social consciousness where hierarchically structured social sphere seems limiting its economic growth potential. The emergence of global knowledge economy altered economic dynamics fundamentally. Profit ratios of manufacturing paled in front of high value-added knowledge industries. Korea's bid to transform its economic structure from manufacturing to service-centered knowledge economy is constrained by largely unchanged social solidarity and collective consciousness. The logic of collective consciousness seems to work negatively as a constraining factor to individual consciousness, which is crucial to the development of knowledge economy.

Present literature dealing with the Korean economic woes is focusing more on state-market dynamics and ignores social roots of the economic problem. It failed to develop a unified perspective that can take note of interdisciplinary variables. Post-crisis financial and economic restructuring may provide short-term economic stimulus, however, problem is much deeper and wider than many experts presume. For instance, present gloom in Japan originates from the misunderstanding of social constraints limiting economic dynamism. It is about time to broaden our research parameters to decipher real forces at work. To underline how these forces constrain Korea's economic vitality I propose the following hypothesis:

The hypothesis is that regulatory impact of collective social consciousness is limiting economic growth potential in Korea; 1) because collective social institutions constrain and regulate individual freedom; 2) because constrained individual freedom negatively regulates

ability to raise questions and creative learning; 3) because lack of creative learning hinders the move from manufacturing to knowledge economy.

Theoretically analysis derives arguments from Durkheim's social facts theory which explains that the binding and constraining factors of social solidarity or "collective consciousness" work against the development of "individual consciousness" that in turn plays important role in the creation and development of knowledge.

Historical analysis shows that institutionalized collective social consciousness work as an all-pervading invisible regulatory authority constraining individual uniqueness and creativity. Drawing upon European experiences, it can be said that the rise of scientific civilization originates from conscious individuals such as Socrates, Aristotle, and Galileo who confidently expressed their doubts about the established norms and practices of their time. The debate and discussion that followed these individual's ability to doubt the established norms gave birth to a free man in Europe who led the charge of invention-centered scientific civilization.

The paper concludes that regulatory impact of institutions of collective consciousness work in favor of mass manufacturing, however, in the context of knowledge economy these very social institutions work against the development of independent personality which is one of the pre-requisites of invention-centered culture. Korea has passed the era of imitation and innovation-led economic growth, thus to move further in the prosperity ladder, it needs a new social contract based on invention-centered individual consciousness. Only empowered, confident, and free individuals can effectively participate in the evolving global knowledge economy. Thus, the new challenge before Korea and to the entire Asian civilization is how to accommodate individual uniqueness in the hierarchically organized collective Asian social regulatory system.

## **The Economics of Social Regulations: An Inquiry into the Causes of Korea's Economic Vulnerability**

Korea's economic vulnerability stems from the legacy of interventionist 'developmental state'<sup>1</sup>, which created two distinct phases of development: phase of increasing competitiveness and the phase of decreasing competitiveness.<sup>2</sup> From early 1960s to late 1980s, Korea witnessed economic dynamism of first phase when economy demonstrated high competitiveness on the back of 'growth first' strategy promulgated by the military regime under Park Chung Hee and implemented by 'conservative growth alliance'.<sup>3</sup> Korea recorded one of the highest economic expansions in the world.<sup>4</sup> However, this economic dynamism started to lose its momentum soon as some argue that Korea's growth in the twenty years up to early 1990s was the product of 'perspiration' (high savings rate and increased capital and labor input) rather than 'inspiration' (technology). Beginning 1990s, economic policies that provided growth momentum started to act as serious constraints. These constraints pushed Korea into the second phase of decreasing competitiveness when corporate profitability rate slipped to all time low.<sup>5</sup> Regional financial crisis of 1997 marks the culmination of decreasing competitiveness phase. During this phase manufacturing expansion started to flatter. Manufacturing industries which grew 16 percent per year from 1962 to 1982, moved to the lower competitiveness level with growth of 9.2 percent in 1990, 9.5 percent in 1991, 5.3 percent in 1992, 6.8 percent in 1996, 6.6 percent in 1997, and -6.7 percent in 1998.<sup>6</sup>

This significant reversal in Korea's economic dynamism prompted intense debate about the real forces at work causing economy to lose its competitiveness, which lies at the core of

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<sup>1</sup> For the understanding of developmental state, see Chalmers Johnson, "Political Institutions and economic Performance: Government-Business Relationship in Japan, South Korea and Taiwan" in Scalapino R. et al. (eds.), *Asian Economic Development-Present and Future* (Berkeley, CA: Institute of East Asian Studies, 1985).

<sup>2</sup> How state-controlled industrial adjustment in Korea has succeeded and failed. For details, see Jong-Chan Rhee, *The State and Industry in South Korea: The Limits of the Authoritarian State* (New York, Routledge, 1994).

<sup>3</sup> The term 'conservative growth alliance' has been used to indicate the close cooperation between Korea's two most important developmental actors – state and big business- which used traditional collective consciousness as a policy instrument to mobilize, discipline and motivate labor that was largely excluded from this alliance. Strengthening of the regime of collective solidarity helped to unite conservative forces for the sake of achieving high economic growth rates.

<sup>4</sup> During this phase Korean economy registered average annual growth rate of 8.2 percent during 1962-82. Per capita GNP in 1975 constant prices more than tripled from US \$ 339 in 1962 to US \$ 815 in 1982. Merchandise exports accounted to only US \$ 55 million in 1962 but increased to US \$ 1,624 million by 1972, showing an average annual growth rate of 40 percent. Between 1972 and 1982 they increased at an annual average rate of 30 percent. Manufacturing sectors particularly grew some 16 percent per year from 1962 to 1982. The share of manufacturing in the GNP more than tripled from 9.1 percent in 1962 to 31 percent by 1982, whereas share of services marginally reduced from 45.6 in 1962 to 46.6 percent in 1982. For details, see Kwang-suk, Kim and Jun-kyung, Park, *Sources of Economic Growth in Korea, 1963-1982* (Seoul: Korea Development Institute, 1985), pp. 5-12.

<sup>5</sup> According to LG Economic Research Institute, Korea's top companies averaged a 10 per cent return on equity over the past five years, against 20 per cent in the US. Also, Bain & Company said only 6 per cent of South Korean companies had achieved sustainable profit growth over the past decade. Last year, about one-third of all companies did not generate enough to cover interest on debt. For details, see Andrew Ward, South Korea's corporate earnings surge, *Financial Times*, April 19, 2002.

<sup>6</sup> Banks of Korea, various years. See at [http://www.bok.or.kr/index\\_e.html](http://www.bok.or.kr/index_e.html)

national economic vulnerability.<sup>7</sup> One of the explanations emanating from this debate argue that over reliance on manufacturing and under reliance on Knowledge-based service industry caused decline in Korea's competitiveness. However, this analysis clearly lacks rigorous interdisciplinary tools to analyze the real forces hindering the growth of knowledge-based service industries. The nature and dynamics of Korea's severe manufacturing-service sector imbalance seems to be much deeper than contemplated in the existing debate about Korea in particular and East Asia in general.

In an attempt to decipher the real nature of forces causing economic vulnerability in Korea, this paper cites regimes of social regulation as one of the prominent factors.<sup>8</sup> It argues that Korea's distinct regime of social regulation, clearly oriented towards collective consciousness, negatively affects nation's transition from manufacturing-led growth strategy to service industry-led growth initiatives. It notes that the inner logic of a social regulatory regime shapes the nature of individual-self that plays a decisive role in facilitating or constraining success in the knowledge-based service industries crucial for Korea's next phase of growth momentum.<sup>9</sup>

Main arguments of this paper are organized in the following way. Section I defines the structure and nature of Korea's present economic vulnerability. It argues that in the era of declining competitiveness in the manufacturing sector, particularly due to the intense competition from cheaper wage locations such as China, South East Asia and Mexico, Korea stands to sharply lose its competitive edge in the vital manufacturing industries. However, after the repeated attempts Korea couldn't shift its focus from manufacturing to knowledge industries as shift in the industrial focus involves change in the social dynamics. Thus, Korea's economic vulnerability stems from the social context, which is constraining its ability to firmly establish itself in the global knowledge economy. Section II deals with the factors that are causing Korea's economic vulnerability. It notes that Korea's strong 'developmental state' created a narrow conservative developmental alliance by co-opting big business and clearly excluding labor. To serve the larger interest of the actors involved in this alliance, developmental logic extensively used traditional 'collective consciousness'<sup>10</sup> as a motivating force to mobilize labor. This emphasis on traditional

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<sup>7</sup> This debate echoes not only Korea's economic vulnerability but also the structural constraints causing loss of competitiveness of entire East Asian region, particularly Japan, which share common developmental paradigm with Korea. For details, see Young-Kwan Yoon, *The Political Economy of Economic Crisis: The Case of South Korea*. Paper presented at the workshop on Current Economic and Political Issues in Korea, Center for Pacific-Asia Studies, University of Stockholm, Stockholm: Sweden (1999, Jan. 28-29).

<sup>8</sup> Social regulatory regimes affect economic development in variety of ways. For details, see Ball, Richard, "Individualism, Collectivism and Economic Development," *Annals of the American Academy of Political and Social Science*, Vol. 573, January 2001, pp. 57-84. Also, in terms of entrepreneurship, individualists produce breakthroughs that collectivists implement and improve them. More on this reasoning, see James H. Tiessen, "Individualism, Collectivism, and Entrepreneurship: A Framework for International Comparative Research," *Journal of Business Venturing*, Vol. 12, No. 5, September 1997, pp. 367-384; Michael H. Morris, Ramon A. Avila and Jeffrey Alien, "Individualism and the Modern Corporation: Implications for Innovation and Entrepreneurship," *Journal of Management*, Vol. 19, No. 3, Autumn 1993, pp. 595-612.

<sup>9</sup> Steven J. Heine, "Self as Cultural Product: An Examination of East Asian and North American Selves," *Journal of Personality*, Vol. 69, No. 6, December 2001, pp. 881-906.

<sup>10</sup> 'Collective consciousness' in Korea originates from the Confucius value system, which places more emphasis on collective than individual. Durkheim names this type of solidarity as 'mechanical solidarity' popular in the primitive societies. Thus, contrary to the common perception, Korea's modern economic development promoted collective

social practice led to the stagnation or rather strengthening of Korea's age-old collective solidarity, which greatly undermined the development of 'individual consciousness'.<sup>11</sup> It argues that under developed individual consciousness badly constrained by over developed collective consciousness lies at the core of Korea's economic vulnerability.

Section III comprehends Korea's stagnated social sphere, which shows largely undisputed dominance of collective social solidarity. It argues that Korea's institutions of collective bindings; such as state system, big business, family system, and educational institutions show credible signs of social stagnation. It highlights that Korea's modern economic development could not weaken rather strengthened age-old Confucian tradition based on the superiority of collective over individual consciousness. Section IV outlines theoretical arguments that help clarify the economic impact of collective consciousness. It notes that labor-intensive, manufacturing-led development clearly benefits from the rules of collective binding. It discusses Durkheim's social fact theory that provides the rationale to claim that the binding and constraining factors of social solidarity or collective consciousness work in favor of manufacturing industries and act against the development of knowledge industries based on the individual consciousness, which is a prerequisite to develop independent thinking, creativity and knowledge. Section V outlines the economics of social regulations; primarily how Korea's social regime of collective consciousness affects its economic activities. It argues that collective consciousness works against the development of knowledge and confirms the positive correlation between Korea's underdeveloped knowledge-based service industry and underdeveloped individual consciousness. To substantiate these findings, this paper extracts data from Korea's information technology (IT) industry indicating a sharp growth gap between hardware and software sectors. This mismatch validates the assumption that there exists a positive correlation between underdevelopment of software service sector and the underdevelopment of individual consciousness.

Section VI discusses the mechanism to transform collective solidarity in Korea. By taking note of Durkheim's *Division of Labor*, this section offers various policy mechanisms that can transform Korea's damaging collective solidarity. It argues that Korea can transform structures of collective solidarity by introducing organic solidarity based on the transparent system of civil law. Section VII concludes that Korea's collective consciousness, strengthened by its conservative developmental alliance, works as a constraining factor in the development of a vibrant knowledge industry. It notes that a careful de-construction of norms and institutions of collective solidarity will foster individual consciousness. Only empowered individual will be able to develop creative new thinking that can provide a firm base to the development of viable knowledge industry in Korea.

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consciousness to mobilize and discipline labor for the expansion of vast manufacturing industries. For the details about the term collective solidarity, see Richard Munch, *Sociological Theory: From the 1950s to the Present* (Chicago: Nelson-Hall Publishers, 1994), pp. 128-155.

<sup>11</sup> 'Individual consciousness' is the higher stage, which arrives when collective consciousness dissolves under the weight of economic forces emanating from the new division of labor. In Durkheim's words, it's a process of

## I. Nature and Structure of Korea's Economic Vulnerability: Beyond Economic Sphere

Korea's economic vulnerability is not exclusive to the economic realm but it encompasses vast social sphere. In other words, regimes of social regulation deeply affect the process of structural change in the economy. However, in analyzing the Korea's economic ups and downs, only two prominent perspectives came into practice. Neoliberal market-centered perspective (World Bank, 1993; Kuo, Shirely W.Y. et al., 1981, Balassa, Bela, 1988; Mason, Edward S. et al., 1980) cited 'getting the basics right' as the prime logic behind East Asia's economic rise. Contrary to the getting basics right, state-centered perspective (Amsdon, 1989, Wade, 1990, Johnson, 1987, Evans, 1987) asserts that getting them wrong and distorting them in favor of economic growth contributed to rapid economic development. This perspective argues that effective state intervention; state's policies such as targeted industrial policies, and setting concrete performance standards have been decisive in economic development.

Nevertheless, both analytical frameworks regarding Korea and East Asia lacks society-centered perspective that can trace regimes of social regulation as the relevant factor in the process of economic development. This weakness in the analytical frameworks largely stems from the narrow theoretical framework practiced by international political economy (IPE). It has been documented that traditionally, IPE was concerned with the two central institutions of the modern world and the relationship between them, the state and market. As Robert Gilpin (1987: 8) defined it: "The parallel existence and mutual interaction of 'state' and 'market' in the modern world create 'political economy'... In the absence of state, the price mechanism and market forces would determine the outcome of economic activities; this would be the pure world of economist. In the absence of market, the state and its equivalent would allocate economic resources; this would be pure world of political scientist."

Although in the past decade or so the substantive content of IPE has moved on considerably, however, most of the academic analysis remains dominated by states and markets and the relationship between them. To correct this lingering impasse, IPE is looking beyond state-market formulation by accomplishing a theoretical readjustment, that is, returning back to its roots in the political economy. Nevertheless, return to the tradition of political economy is not without problems. Political economy is deeply divided among at least three schools of thought, each of which survived the traumatic dissolution in the late 19<sup>th</sup> century of political economy and the emergence of modern disciplines of economics, political science and sociology. These

remnants of older political economic tradition are at the heart of present renewal in IPE thought.

The new IPE, as Murphy and Tooze (1991) call it post-rationalist branch of IPE, maintains that power, exploitation and hegemony take many forms, not all of which are purely materialist or of economic nature. In fact, IPE does not claim that economic and/or materialist interests are at the heart of each and every event, trend or process in the international arena. IPE does not privilege economics; it privileges a political economic mode of analysis that denies the separation between politics, economics and society. Thus, a clear shift to the post-rationalism opens up IPE from its economic-centric base to broader questions of society, history and culture. This re-orientation in the theoretical leaning of IPE has particular importance to the understanding of the East Asian political economic dynamics. The understanding of East Asia's economic ups and downs has suffered due to the traditional IPE focus on state and market formulation.

By acknowledging the post-rationalist turn in the IPE, this paper tries to move beyond the narrow state-market discourse. It incorporates regimes of social regulation, and argues that social structures are constraining East Asia, particularly Korea's efforts to firmly establish itself in the emerging global economy. It has been noted that the process of economic development involves not only material changes but also social changes. In this context, Korea's economic development, which derived its power from the conservative social forces, consolidated and strengthened the grip of traditional authority based on structures of collective social solidarity. This conservative arrangement worked well in the first phase of manufacturing-led developmental strategy.

However, some fundamental changes in the domestic and international economic environment raised new question before the tested developmental path adopted and practiced by Korea. Decades long rapid manufacturing expansion fundamentally transformed the basics of Korea's domestic economy. Low wage regime, which powered Korean manufacturing industries to penetrate in the global market place, quickly transformed into high-wage regime. This change in the domestic economy sharply eroded Korea's cost advantage in the mass manufacturing industries.

Moreover, two prominent developments in the international economic scene placed serious structural limits in competitiveness of Korea's manufacturing industries, these include: one, the emergence of new manufacturing centers in South East Asia, China, and Mexico, where low-wage regimes are attracting billions of dollars of foreign direct investment. China's on-going FDI boom is powering one of the biggest manufacturing machines. In 2001, China generated FDI worth US \$ 47 billion, up ten fold from 1990. China has already forced global restructuring in the labor-intensive mass manufacturing industries such as textile, light engineering goods, and



consumer electronics sectors; two, massive structural changes in the world economy established the dominance of knowledge-based service sector based on the new technology regime powered by revolutionary changes in the information technologies.

These economic changes imposed a need for new economic regime transformation in the developed economies: to move away from the mass manufacturing to the evolving knowledge-based global service industry. Many developed economies, which lost competitiveness in the 1980s, have successfully re-established themselves in this emerging global knowledge economy. Korea, which has just got graduated from the developing economy status, is facing serious crisis: how to achieve this transformation?

The forces hindering this regime transformation in Korea are emanating from a distinct social context. In other words, Korea's stagnated social sphere is virtually constraining its ability to transform its economic structure from manufacturing to services. Korea's relative failure in the knowledge front is evident by the fact that it runs huge 'knowledge deficit'. Table: 1 shows Korea's relative failure in this critical area, which is indicated by the large deficit in the royalty and license fee of various technologies.

**Table: 1 Royalty and License Fee, 1999**

<b>Receipts &amp; Payments</b>	<b>Receipts \$ Million</b>	<b>Payments \$ Million</b>
	1999	1999
<b>Korea</b>	<b>455</b>	<b>2,661</b>
Japan	8,190	9,855
USA	36,467	13,275
UK	7,942	6,301

World Development Indicators, 2001

Korea, a key member of East Asian economic miracle, has created world class manufacturing industries in the areas of textile, heavy and chemical industries, automobiles, IT equipment and semiconductor, etc. It's strong presence in the manufacturing industries contrast with insignificant achievements in the service sector. Korea's move towards knowledge industries has been at best lackluster. Korea witnessed a sharp decline in the competitiveness of manufacturing industries. In the mid-1990s, Korea's big business responded to this fundamental weakness by aggressively adding production capacity to achieve largest possible economy of scale. Instead of curing the disease Korea's corporate strategist tried to get rid of the disease. It miserably failed. Crisis that was breeding from sometime exploded with the bang in 1997 in Thailand and quickly engulfed many of the East Asian economies, including Korea.

Post-crisis reform and restructuring efforts tried to create a new balance between manufacturing and services. However, these efforts are been constrained by the logics of old

developmentalism and strengthened traditional collective social order. Powerful social structures of collective consciousness are clearly undermining the development of autonomous individual needed to advance the growth of knowledge industries. Reorganization of social regime has never been an easy task as it can only be a long process not an event. At this very point lies Korea's economic vulnerability. Its structures are hidden deep in the social logics and regimes, which makes its nature to be beyond the set limits of economics. Next section investigates causes of Korea's economic vulnerability, which do not fall in the strict realm of economic analysis.

## II. Causes of Korea's Economic Vulnerability: Social Dynamics of Its Developmental Alliance

Modern Development in the post-war Korea has been propelled by a powerful developmental alliance.<sup>12</sup> In this conservative developmental alliance state acted as a 'senior partner', which created, nurtured, and expanded big business to gain its autonomy. However, entire developmental process carefully excluded labor. Alliance partners used age-old Confucius tradition of collective solidarity to control, discipline and motivate workforce, which was excluded from the developmental alliance. This helped to maintain labor disputes firmly under control. For example, labor disputes in Korea during 1960s numbered only 70 in 1963, 7 in 1964, 16 in 1968, 7 in 1969, 4 in 1970 (Deyo, 1989: 60). It created a distinct political economy that drove Korea into the ranks of economic prosperity at the cost of social development. Thus, contrary to Europe's social impact of development in shattering the traditional order, Korea's distinct developmental process strengthened the traditional order. Though, in the 1980s, the conflict within the conservative developmental alliance developed into a full-blown crisis, but soon state-class relations were re-arranged in a same conservative way, because the opposition alliance failed to overrun the authoritarian developmental regime. As a result democratization proceeded in a top down manner under the initiative of the former ruling bloc (Eun Mee, Kim, 1998: 146).

Also, it is important to note that development in Korea was not the outcome of indigenous struggle but it was imposed from a powerful developmental alliance. This imposed development did not stimulate any cohesive social response, enabling society to develop by its own struggle. Moreover, to serve its interest, big business that grew enormously in size and scope, used traditional practice of collective social solidarity in designing an exploitative corporate culture. Hierarchical collective order based on the philosophy of Confucianism became the textbook of Korea's managerial structures. Unwritten, unofficial management practices of Korean corporations prolonged working hours to the abnormal limits. According to the Daewoo group's top management, commonly employees have to be present till their boss remains in the office,

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<sup>12</sup> Formed in the early 1960s, Korea's developmental alliance was composed of an incipient capitalist class, bureaucrats, conservative politicians, and the military. Class base of this alliance came from peasants, urban petty bourgeoisie- that is, urban middle class and lower classes and others. This alliance excluded labor. For details, see Hee-Yeon, Cho and Eun Mee, Kim, "State Autonomy and Its Social Conditions for Economic Development," in Eun Mee, Kim, ed. *The Four Asian Tigers: Economic*

who generally stays till late night.<sup>13</sup> This tradition developed out of elder's respect in the society but misused by the corporate management to fulfill their narrow interests. Thus, in the name of collective social solidarity, unofficial practices of corporate Korea deeply affected individual consciousness.

A closer look to Korea's individual consciousness forces us to rethink an age-old philosophical divide - the power of state and the uniqueness of individual consciousness - which existed between great philosophic minds of all times, Plato and his student Aristotle. Korea presents a classic example of Plato's theory of a strong state where the powers of government have enormous influence in the shaping and reshaping of individual consciousness. In his utopian state Plato loved the general and universal so much that in *The Republic* he preferred the destruction of individual for the cause of creating a perfect state.<sup>14</sup> Perfect state is not desirable at the cost of individual self-esteem and unique personal traits, as it was quickly contradicted by his brilliant student Aristotle who argued the restoration of individual's dignity. Aristotle had a lusty preference for the concrete particulars, for the flesh and blood individual (consciousness).

This centuries old philosophical divide finds its relevance in the modern day Korea where the power of state apparatus together with big business and Confucian hierarchical family values blunted the uniqueness of individual consciousness. This blunted individual consciousness is playing a crucial role in Korea's present economic vulnerability where its failure in the knowledge-based service sector industries is so evident. Next section describes Korea's collective consciousness, which got strengthened during the post-war rapid economic expansion.

### III. Korea's Stagnated Social Sphere: Logics and Regimes of Collective Consciousness

History of economic development indicates that the power of economic forces often helps to transform the age-old social, cultural and moral practices. However, this transformation may not always disrupt the traditional order. There are instances when old social norms and institutions can find new powerful allies in the process of economic development. A relevant example comes from India, where caste system, an old practice of hierarchically categorized social class or status based on birth, found new supporters in the modern developmental process. Similarly, in Korea, practice of traditional collective solidarity based on the Confucius value system founds new powerful allies in the industrialization process.

Korea's political economic development of the past three decades as well as current economic reform policies have all been strongly influenced by the Confucian political discourse. Once the democracy was instituted with the fall of military dictatorship, once the left-wing

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*Development and the Global Political Economy* (New York: Academic Press, 1998) pp. 125-158.

<sup>13</sup> This piece of information is based on the author's regular interaction with the top management during 1997-1999 as a member of Daewoo Corp. Seoul, Korea.

<sup>14</sup> Karl Popper sees Plato different from the "Great Generation" that paved the way for "Open Society" which became foundation for the present day democratic society. For details, see Karl Raimund Popper, *Open Society and Its Enemies* (Princeton: Princeton University Press, 1972).

struggle dissolved with the dissipation of Marxism, and once the competition against the North Korean communists became lopsided affair, the political ideals and vocabularies deriving from the modern western political tradition began to cede to the one's based on traditional Confucian discourse. After the basic issues related to the economic survival were resolved, Koreans reverted to the values and vocabularies most familiar to them, those of Confucianism (Jongryn Mo and Chung-in Moon, 1999: 52).

Among supporters state, big business, family system and education system played crucial role in enhancing and preserving the old collective order. Thus, Korea's stagnated or rather strengthened collective social sphere, which has roots in the process of economic development, is clearly visible in the institutions fostering collective binding. These include, state, big business, family system and educational institutions.

### III-A. The State System: A Search for Autonomy

The abrupt end of Japanese colonial rule has thrown open a new political economic space for the Korean state to reconfigure state and society relations.<sup>15</sup> Though, the autonomous nature and entrepreneurial capacity of Korean state and its role in the economic development varied with time and space but Korean historical context provided state with the responsibility of "producing" social relations than "reproducing" them. In the other words Korean state has met comparatively little resistance in transforming the industrial structure of the nation because the domestic resistance has been feeble.<sup>16</sup> Not only that, what powerful group exists today in Korea, mostly the chaebol, had to built by state. Nature of Japanese colonialism, which initiated a clear policy of assimilation of Korea into the imaginary concept of Greater Japan, destroyed local bourgeois. The absence of any dominant social force provided state with the capacity to recreate and impose new social order.

To define this kind of state, Chalmers Johnson constructed a Weberian ideal type of an interventionist state that was neither "plan-irrationalist", where ownership and management remains in the hands of the state as in the former socialist economies, nor free-market, but something different: the "plan-rational" capitalist developmental state, conjoining private ownership with state guidance<sup>17</sup>. Some refer this private ownership with state guidance as "entrepreneurial state" that seized economic opportunity by adapting flexible interventionist policies (Amsden 1989, Chang Ha-Joon 1995). "Social mobilization and nationalism" as proposed by Johnson were the core of this developmental drive fueled by heavy handedness of

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<sup>15</sup> For details, see Young-Chool Ha. 2000. "Colonial Rule and Social Change: Paradoxes of Colonial Control," mimo.

<sup>16</sup> State centered studies, which are based on the theory of state autonomy, came closer to the reality of Korean growth than the neoliberal market-centered studies. However, they do not consider fully social conditions in which state autonomy could be possible. For statist scholars, the state is viewed as an independent actor, not as a dependent actor of socioeconomic forces. For details, see A. Kohli and V. Shue. 1994. "State Power and Social Forces: On Political Contention and Accommodation in the Third World," in S. Migdal, A. Kohli, and V. Shue, eds. *State Power and Social Forces: Domination and transformation in the Third World*. New York: Cambridge University Press.

<sup>17</sup> Chalmers Johnson. *MITI and the Japanese Miracle: The Growth of Industrial Policy 1925-1975* (Stanford: Stanford University Press, 1982).

Northeast Asian State.

To understand the nature of Korean state, its promontory position in the Cold War requires an analysis to mesh domestic with international politics. It is difficult to expect much from a state where the main aim was to triumph over dependency. With the "big push" in the 1970s, Korean state focused all the national energy to move Korea away from a dependent, penetrated status to one of relative autonomy.<sup>18</sup> The concern of the state became long-run future international competitiveness and industrial transformation. The formulation and implementation of HCI plan epitomized the "strong state". The so-called Heavy and Chemical Industry (HCI) Drive began formerly with a presidential announcement in January 1973 and ended when a comprehensive Stabilization Program was announced. However, Cold War realities and the threat perception emanating from North Korea forces state to compromise external autonomy. In return, it tried to consolidate internal autonomy by imposing highly interventionist economic regime.<sup>19</sup> This led to the formation of a developmental alliance based on the close cooperation between state and big business. Labor was carefully excluded from this alliance. To discipline, motivate and control labor, this alliance looked towards conservative traditional order which provided ample moral and philosophical rationale to establish a hierarchical-collective order.

Under the supervision strong and autonomous Korean state, a system of hierarchical-collective order worked well. Korea's rapid economic expansion confirms the success of this traditional order. However, the collective solidarity negatively affected the development of individual consciousness. Developmental alliance led by autonomous state used the logic of collective solidarity a way too far, which pushed nation into the damaging manufacturing-trap.

### III-B. Big Business: The Chaebol Phenomena

Korea's big business, often termed as Chaebol,<sup>20</sup> used the notion of collective solidarity to conform labor to fulfill its narrow corporate interests. It has state blessing to use capital, labor and other resources at their will.<sup>21</sup> As of 1985, the five largest Chaebol constituted 20.4 percent of the total assets of the manufacturing sector in Korea (Cho Tong-song 1991). Chaebol has been seen as a part of quasi-internal organization where the dividing line between public and private

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<sup>18</sup> Jung-en Woo, *Race to the Swift: State and Finance in Korean Industrialization* (New York, Columbia University Press, 1991), p.7.

<sup>19</sup> Wookhee Shin, *Dynamics of Patron-Client State Relations: The United States and Korean Political Economy in the Cold War* (Seoul: Seoul National University, 1993).

<sup>20</sup> They are defined as big business groups or conglomerates exclusively owned, managed and controlled by entrepreneurial founder and his family. For details, see Tong-song Cho, *Hanguk chaebol yongu [A Study of the Korea Chaebol]*, Seoul: Maeil Kyongje Sinmunsa, 1991; Chong-hawn Chu, *Chaebol kyonggyeron [Chaebol Economics]*, Seoul: Chongum Munhwasa, 1985; Young-iob Chung, "Chaebol Entrepreneurs in the Early Stage of Korean Economic Development," *The Journal of Modern Korean Studies* 2, pp. 14-28; Chol-kyu Kang, Chong-pyo Choe and chi-san Chang, *Chaebol [The Chaebol]*, Seoul: Pibong, 1991.

<sup>21</sup> For the details about Chaebol activities, see Sakong Il, "Gyungje Sungjang gwa Gyungjeryuk Jibjung"[Economic Growth and the Concentration of Economic Power], *KDI Review*, 1, March 1980, pp. 2-13; *Hankuk Ilbo*, Appendix, 29 September, 1981, pp. 5-8; Jones Leroy, "Jaebol and the Concentration of Economic Power in Korean Development: Issues, Evidence and Alternatives," in Il Sakong, ed., *Macroeconomic Policy and Industrial Development Issues* (Seoul: Korea development Institute, 1987).

was insignificant.<sup>22</sup> Its rise can be seen in the state's bid to move away from "penetrated" to "autonomous" status. In reality, they are creations- productions not reproductions- of the state.

The rise of the Chaebol phenomena officially begins in August 1972 when presidential decree massively drove down the price of capital to promote heavy and chemical industries. However, even then the newly emerging Chaebol were unwilling to invest in heavy and chemical industries at their own risk due to the required large fixed capital investment, the long gestation period, and the uncertainty of return associated with these projects.<sup>23</sup> From this point on, the bank loans became subsidies for the chosen- the entrepreneurs who had already proven their mettle through good export records, the risk takers who entered into heavy and chemical industries, and the faithful entrepreneurs who plunged into the untried sea of international competition with new products, relying on the state's good offices to rescue them. To join the hallowed chosen one, enterprises had to be big; but to remain chosen one, they have to be gigantic: size was an effective deterrence against default- some thing that would threaten not only the financial but the economic stability of the country- forcing government into the role of the lender of the last resort.<sup>24</sup>

In Korea, 400 hundred large firms belonging to 137 different Chaebol claimed (in 1983) 69.6 percent of total financial institution loan outstanding. In Taiwan, by comparison, the share of the top 100 firms was 11.6 percent of the total domestic credit. The share of the 50 largest Chaebol in total domestic credit came to 26.5 percent, and the combined share of the three largest i.e. Hyundai, Samsung, and Daewoo was over 10 percent of the total. The ratio of debt to equity in the 50 largest Chaebol was conservatively estimated at 524 percent in the 1980, and 454.8 percent in 1985. Seven of the top 50 have staggering debt ratio of over 1,000 percent: of them, some over 10,000 percent, and one stood at 47,699 percent (Woo Jung-en, 1991).

Even though the massive pile up of non-performing loans mostly to Chaebol made them rarely to go belly-up. Though state lets one or two die at a great interval in a case of exemplary justice. The selection of sacrificial lambs was often political, as Yulsan (Kukchae, the sixth largest group in the country), an intrepid corporation that ballooned on export credits, supported an opposition politician.<sup>25</sup> The Chaebol leverage against bankruptcy is, very simply, its size and its impact on employment.

Virtually all the Korean conglomerates have been highly leveraged firms and live with a constant specter of default. It was for this reason that the expression "octopus-like spread of the Chaebol" came into wide circulation in Korea. But the Chaebol tentacles gripped not only the

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<sup>22</sup> For details about quasi-internal organization argument, see, C.H Lee, "The Government, Financial System, and Large Private Enterprises in the Economic Development of South Korea," *World Development*, Vol. 20, No. 2, 1992, pp. 187-197.

<sup>23</sup> Yoon-Je Cho, "Finance and Development: The Korean Approach," *Oxford Review of Economic Policy*, Vol. 5, No. 4, 1989, pp. 88-102.

<sup>24</sup> For the details for the Cheabol phenomena, see Sakong Il, "Gyungje Sungjang gwa Gyungjeryuk Jibjung"[Economic Growth and the Concentration of Economic Power], *KDI Review*, 1, March 1980, pp. 2-13; *Hankuk Ilbo*, Appendix, 29 September, 1981, pp. 5-8; Jones Leroy, "Jaebul and the Concentration of Economic Power in Korean Development: Issues, Evidence and Alternatives," in Il Sakong, ed., *Macroeconomic Policy and Industrial Development Issues* (Seoul: Korea development Institute, 1987).

economy but the state as well: big state and big business would have to sink or swim together. Post-independent, war ravaged Korea has virtually no other option but to embark on a labor-intensive manufacturing-led developmental path. This tested path led to the creation of successful manufacturing prowess in Korea. However, Chaebol's power and size made them to stick with unprofitable manufacturing-led industrial structure far too long. They ignored any attempt to restructure the growing imbalance between manufacturing and services. Big business used collective solidarity of the past era to gain more leverage with the state. In time, they virtually subordinated the state system. Thus, big business developed interest in enhancing dormant collective consciousness that effectively crippled individual consciousness.

### III-C. The Family System: A Model Confucius Family

The core of Confucius social order revolves around rigid hierarchy, which originates from the structures of family system where eldest member has the decisive say in all the family related matters. In other words, family system became the replica of wider social system. Confucianism extended invisible but unprecedented binding power of family rules and regulations to preserve order and harmony in the wider society. This unprecedented binding power of family rules transformed family system into the little 'authoritarian republics' where individual consciousness was undermined bit by bit on the daily basis. Contrary to the Western concept of family where distinction between private and public realm clearly articulated, Confucian family values ignore any distinction between public and private, even actively suppressed it. Perhaps the most concise and famous of all Confucian formulations, which refuse to acknowledge the distinction between private and public, is the opening passage of the Great Book, one of the four books of neo-Confucianism:

"The Ancients who wished clearly to exemplify illustrious virtue throughout the world would first set up good government in their states. Wishing to govern well their states, they would first regulate their families. Wishing to regulate their families, they would first cultivate their persons. Wishing to cultivate their persons, they would first rectify their minds. Wishing to rectify their minds, they would first seek sincerity in their thoughts. Wishing for sincerity in their thoughts, they would first extend their knowledge. The extension of knowledge lay in the investigation of things. For only when things are investigated is knowledge extended; only when knowledge is extended are thoughts are sincere, only when thoughts are sincere are minds rectified; only when minds are rectified are our persons cultivated; only when our persons are cultivated are our families are regulated; only when families are regulated are states well governed; only when states are well governed is there peace in the world." (Analects, XII: 17)<sup>26</sup>

This passage confirms that Confucianism regards family not as the repository of the

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<sup>25</sup> *Business Korea*, August and September 1985.

<sup>26</sup> William Theodore de Bary, Wing-Tsit Chan, and Burton Watson, eds., *Sources of Chinese Tradition*, Vol. 1 (New York: Columbia University Press, 1960), p. 115. Quoted in Mo, Jongryn and Moon, Chung-in, *Democracy and the Korean Economy*. (California: Hoover Institution Press, Stanford University, 1999), pp. 41-42.

private but rather as the training ground for public-spiritedness. The Confucian family, then, was anything but the locus of private (Mo, Jongryn and Moon, Chung-in. 1999: 43). Thus, in the name of morals, values and respect an authoritarian social order was established which created stronger binding force than the written rules and laws.

In this backdrop, Koran family system can be termed as a model Confucian family, which practiced the conformist lessons of Confucian teaching to the fullest. Bounded by Confucian tradition, modern Korean families are characterized by elaborate codes of behavior and language among the family members.<sup>27</sup> The strong familism in Korea society is largely the product of modern day post-Confucian familism (Mo, Jongryn and Moon, Chung-in. 1999: 46). In this situation of hierarchical control by families elder members, individual consciousness find no space to grow. Family's collective will decided the fate of each and every member. From education to marriage, family demonstrated total control in individual's life.

Thus, Korea's collective solidarity found family system as an execution mechanism that effectively implemented the principles of collective solidarity. It acted as a supporting arm to the conservative developmental alliance, which sought strengthening of traditional collective order. Under the pressure of family sponsored authoritarianism, individual lost enthusiasm to learn, to experiment, to take risk for doing some thing new.

### III-D. Education System: Conformist Ideology

Industrialization process created unprecedented higher education boom in Korea. In the early 1990s, Korea witnessed what can be called an educational explosion with industrialization. There were only 19 institutions of Korean higher education with total of a little over 7,819 students at the time of Korea's liberation in 1945 (The Ministry of Education, 1976:179), while in 1995 the number in Korea was reported to be 327 with a total of 2,343,849 students (Koran Collage/University Yearbook, 1996; Korea Education Almanac, 1996).

Behind the thick wall of quantitative success, Korean education hides critical issues related to the quality, effectiveness and usefulness of learning. Effectively deviating from its prescribed path to enlighten society by initiating changes in the rigid social practices, Korea education system upholds the conformist social values originating from its traditional legacy of Confucian thought. According to a cultural survey of senior administrators in the Korean government, it was found that clerically oriented bureaucrats could reach the top in sufficient numbers to dominate the whole bureaucracy through simple accumulation of seniority, that is, age (Ransoo Kim, 1984). It points out that the traditional Confucian values are still the main social organizational culture in Korea. There is no exception in the academic field because the traditional Confucian norms usually dominate institutional culture (Nam Pyo, Lee 1994).

Under the traditional Confucian culture, the authoritative bureaucracy as an administrative instrument of rules tends to be highly formal and centralized. The hierarchical

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<sup>27</sup> Syntax, word choice and intonation of Korean language changes with the age group involved in the conversation.



structure of relationship requires strict communication patterns. In general, subordinates or younger use honorific words to superiors or elders. This relationship is very much alive in the Korean higher education (Lee, Jeong Kyu: 1997: 112). For example, in faculty meeting, the seating position is usually based on rank, which is determined by the order of status, age, sex (Lee, Jeong Kyu: 1997: 112). According to the Confucian ethical principal, the 'O-Ryun' (the five codes of ethics), the young faculty should respect the senior faculty members who generally have high position with authoritative power.

On the other hand, the relationship between faculty members and students follow the Confucian ethical principle, the 'O'Ryun'. Faculty members generally control their students with both legitimated authority and moral norms, which made partly analogous to those practiced between parents and offspring's. Students belief that they are indebted to their teachers for the benefits (eunhae) they bestowed- principally providing teaching, advice, encouraging mental abilities and moral development- just as daughters and sons are indebted to their parents (Janelli, 1993: 45).

Jeong Kyu Lee (1997) points that the characteristics of organizational culture in Korean higher education are authoritarian and collectivist. For instance, civil service exams in Korea, which extended back to centuries and have greatly influenced the structure of modern day university entrance exams in Korea, reflect the authoritarian, conformist and collectivist attitude. Unlike SAT and GRE tests conducted by USA education system, which were originally designed as aptitude test to provide a view into the individual's abilities that grades missed, entrance exams in Korea make no pretense of being about abilities. Successful performance in these exams requires the mastery of countless facts, innumerable hours of study, and years spent at country's ubiquitous cram schools. Admittance to a good university requires a significant amount of effort. In other words, the whole process undermines the autonomy of an individual (Steven J. Heine, 2001: 893)

It has been noted that education system based on the conformism severally distorts individual's ability to think independently and raise questions. In other words, it undermines the autonomy of an individual, which is vital for the creation of unique knowledge. It can be said that Korean education system was born out of its developmental needs. In rush to catch-up, Korea successfully adopted an education system that produced mass literacy, which was urgently needed for the purpose of national development. Korea's labor-intensive manufacturing-led development demanded educated but conformist individuals. And, Korean education system worked well to produce skilled labor force for the vast manufacturing industries.

However, fast pace economic expansion in Korea fundamentally transformed economic reality so does the responsibility of education system. Suddenly, more than conformity, it required creative thinking and new ideas. A report prepared by the Presidential Commission on Education Reform (1997) cites lack of creativity and rote memorization as one of the most pressing problems of Korean education. It says "the collage entrance exam-oriented education system that encourages learning by rote should be considered as the first problem" (PCER Report; 1997: Part

I: 17). It adds that “Korean children are trapped in the so-called ‘examination-hell’, and although Korean students study a plethora of subjects in schools, the lack of optimal choices seriously curtails their freedom to think. Hence, it is almost impossible for the students to nurture individuality and creativity (PCER Report; 1997: Part I: 18). But, education system deeply rooted in the Confucian thought couldn’t transform itself and delivered the required innovative knowledge input.

Thus, Korean education system lags behind to serve countries economic needs. It still emphasizes on the traditional values of conformity. Its focus is on teaching than research. Table: 2 shows that Korean education system is not focused towards the new challenges as its record of publication of scientific & technical journal’s articles lags far behind the developed or even some developing countries.

**Table: 2 Numbers of Publication of Scientific & Technical Journals Articles, 1997**

Korea	4,619
India	8,439
Japan	43,891
USA	166,829

Source: World Development Indicators, 2001.

In sum, institutions that actively participated in the economic development of Korea carefully nurtured the traditional social order based on the collective solidarity or group authoritarianism. This created a sharp gap between economic and social spheres: changed economy and stagnated society. A mismatch that acts a constraining factor in the development of individual consciousness needed for the development of knowledge economy.

#### IV. Theoretical Framework: Durkheim’s Social Fact Theory

The impact of individual and collective consciousness in the economic development can be well accessed by looking deeper into social facts theory envisioned by French sociologist Emile Durkheim. According to the Durkheim’s theory much of our daily life is determined by established social patterns. The source of these social facts is collective, which exerts collective binding that constrains individual consciousness and in turn independent thinking.

This collective consciousness, where member’s awareness of the belonging to the collective and sharing solidarity, beliefs and norms dominates over individual consciousness, is the center that forcefully binds diversity into unity. Thus, the constraining character and universality of collective consciousness gives society an unprecedented power to suppress individual consciousness. The power of established social norms, facts and rules guides action of an individual to the level where it destroys individual uniqueness.

Furthermore, collective social consciousness also carries moral authority. It is perceived as a bearer of common moral norms. Thus, constraints established by collective will are not just

physical but moral too. This moral binding provides collective consciousness with the unique power to control individual's life. Durkheim's observation that individual-self can be subordinated by the moral and physical bindings of the collective social solidarity finds a clear match in Korea where individual consciousness reels under the burden of collective social bindings.

In the process of explaining how to get rid off the structures of collective solidarity, Durkheim proposes the replacement of mechanical solidarity with the organic solidarity. Table: 3 summarizes the transformation of mechanical solidarity into organic solidarity, which can pave the way to the formation of groups based on the professional associations and autonomous individuality.

<b>Table: 3 Transformation of Social Solidarity</b>			
	<b>Mechanical Solidarity (MS)</b>		<b>Organic Solidarity (OS)</b>
<b>I</b>	MS is the type of solidarity that holds people together in the primitive societies.	<b>I</b>	OS becomes increasingly important with the advancement of societies division of labor and is predominant in the modern societies.
<b>II</b>	MS is maintained by common ventures in hunting and agriculture, bonds of marriage, common decision-making and common religious rites. In this type of solidarity there is a little individual differentiation and individuals life is determined by group thinking.	<b>II</b>	OS draws not only similar people but also different people too. In this type of solidarity, awareness of being a member of a society weakens and only a very general sense of societal membership exists.
<b>III</b>	Durkheim calls it collective consciousness	<b>III</b>	Durkheim calls it individual consciousness.

Source: Richard Munch (ed.), 1994: 128

Organic solidarity that holds dissimilar parts, namely specialized autonomous individuals can be maintained by civil law, particularly contract law. Theory argues that organic solidarity guaranteed by legal system can help develop autonomous individuals. It also maintains that human needs of group formation can be supplemented by the formation of professional groups that can logically regulate much of an individual behavior. Next section provides empirical basis to assess the assumptions and the findings of this analysis.

## V. Economics of Social Regulations in Korea: An Empirical Evaluation

Individual self in Korea, which is part of greater East Asian self, is typically described as being collectivist or interdependent.<sup>28</sup> Confucius framework which is the underlying logic at the

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<sup>28</sup> Hofstede (1980, 1991) classified people in Anglo-American countries (the United States, United Kingdom, Australia and Canada) as more individualistic; Latin Americans– notably, Guatemalans, Columbians and

core of Korean individual-self brings with it distinct cultural goals that conflict with desires to be self-sufficient and autonomous individuals. Individuals are connected to each other via interrelationships and with respect to the roles that are inherent in those relationships.<sup>29</sup> These various relationships constitute a coherent hierarchy within which individual has a place associated with clear set of obligations and duties towards others in the group. Inadequate performance of the duties associated with one's roles indicates that one is not doing his or her part in contributing to group's success and is thus not fulfilling important cultural obligation associated with the interdependence (Steven J. Heine, 2001: 898). This interdependence is shaped by Confucian heritage. Central among Confucianism is the value placed on the maintenance of interpersonal harmony within one's five cardinal relationships: father-son, husband-wife, elder-younger, emperor-subject, and friend-friend.<sup>30</sup> Table: 4 summarizes the impact of individual and collective consciousness on the behavior of an individual-self in two cross-cultural settings such as East Asia and North America. .

**Table: 4 Impact of Individual and Collective Consciousness on the Behavior of Individual-self in East Asia and North America**

➤ Social regime based on the collective consciousness	➤ Social regime based on the individual consciousness
➤ East Asia in general and Korea in particular	➤ North America in general and USA in particular
➤ Individual view themselves positively and self enhancing	➤ Individuals view themselves critically
➤ East Asia's interdependent self tries to harmonize with others and adjust to social environment	➤ North America's independent self tries to encourage the self as "in control" and strive to shape the world to accommodate their inner desires
➤ East Asian individuals devote greater proportion of the attentional resources to others and surrounding environment, and would not concentrate on their inner state	➤ North American individuals, with their dispositional theory of behavior, would develop heightened sensitivities to detect any changes in their inner state
➤ East Asian individuals are more likely to experience interpersonally engaged emotions (emotions that emphasize one's connection with others, e.g. respect and shame).	➤ North American individuals are more likely to experience interpersonally disengaged emotions (emotions emphasizing one's distance from others, e.g. anger and pride).

Source: Compiled on the basis of the findings of Steven J. Heine (2001)

Ecuadorians- and some Asians- Koreans, Thais, and Malaysians- as more collective. Japanese people were found to be moderately individualistic.

<sup>29</sup> For details, see H.C. Triandis. 1989. "Cross-cultural Studies of Individualism and Collectivism." *Nebraska Symposium of Motivation*, 37, pp. 41-133.

<sup>30</sup> Su, S.K., Chiu, C.-Y., Hong, Y.-Y., Leung, K., & Morris, M.W., Self Organization and Social Organization: American and Chinese Constructions", in T.R. Tyler, R. Kramer, & O. Johns (eds.), *The Psychology of the Social Self* (Mahwah, NJ: Lawrence Erlbaum, 1999), pp. 193-222.

How this collectivist or interdependent individual in Korea affects economic activities? This section provides an empirical support to assess the validity of the basic assumption that Korea's social regulatory regime, based on the primacy of Confucian type collective consciousness, has been instrumental in suppressing the uniqueness of individual consciousness. The primacy of collective consciousness in turn affects innovation, entrepreneurship and economic development.<sup>31</sup>

This paper argues that Korea's traditional collective consciousness worked well to promote the development of manufacturing industries, where it acted as a motivating and disciplining force.<sup>32</sup> It helped corporate Korea to maintain cordial relations between labor and management. In the 1960s, Korea witnessed very few labor strikes. The success of collective will made Korea to witness growing share of manufacturing industries and almost stagnated share of service sector. Table: 5 shows rapid expansion of manufacturing industries in comparison to the service sector where growth has been insignificant.

<b>Table: 5 Share of Manufacturing and Services in Korea 1962-82 (Percent)</b>			
Years	1962	1972	1982
Manufacturing	9.1	29.9	34.2
Services	45.6	49.9	46.6

Source: Bank of Korea, Input-Output Tables, various issues.

However, the expansion of manufacturing industries fueled by strong sense of collective solidarity reached to point where diseconomies of the scale sat in. In the other words, based on the logics of collective solidarity Korea's great manufacturing miracle effectively locked the nation in the complex 'manufacturing trap', where industrial, financial, bureaucratic and political institutions and policies were in favor of manufacturing industries.

During the same period when Korea stretched the logic of manufacturing-led economic expansion, global economy witnessed fundamental transformation. Globalization, information revolution and financial integration contributed in the rapid growth of knowledge-based global service economy. Most of the developed economies rapidly evolved into vibrant knowledge economies. In the developed world, there is an increasing specialization on skilled, intellectual work performed by what Reich (1992) calls symbolic analysts or problem solvers who work on ideas, concepts and symbols where activities (design, technical & financial consultancy,

<sup>31</sup> In a major study McClelland (1976) contends that the individual need for achievement is the source of entrepreneurship. In contrast, the need for affiliation, similar to collectivism, inhibits such activity because it distracts people from productive achievement-oriented activities. For details, see McClelland, D.C.1976. *The Achieving Society*. New York: John Wiley & Sons.

<sup>32</sup> Hofstede and Bond (1988), building on the work of Hofstede (1980), and Chinese cross cultural researchers reveled the existence of Confucian dynamism Their 23 country sample founds that nation's showing the long-term orientation- dynamics Confucist- demonstrated better growth. For details, see Hofstede G., and Bond, M.H., 1988. The Confucius Connection: From Cultural Roots to Economic Growth," *Organizational Dynamics*, 16, pp. 4-21.

information and communication, marketing, advertising, accountancy and legal services, etc.) involved the appropriation of large shares of the value added created in global production chains. Table: 6 shows increasing gap in the value addition in manufacturing and services in many developed economies.

**Table: 6 Structure of Out-put in the Developed Economies: Manufacturing and Services**

	Manufacturing Value added		Services Value added	
	% of GDP		% of GDP	
	1990	1999	1990	1999
<b>Korea</b>	<b>29</b>	<b>32</b>	<b>48</b>	<b>51</b>
Japan	28	24	56	62
Germany	26	21	64	71
Australia	13	13	70	72
Italy	22	19	66	71

Source: World Development Indicators, 2001.

In this transformed global reality, Korea's old arrangement emanating from the strong development state, became unfit to face new challenges. Financial crisis of 1997 came as powerful reminder that old arrangement has outlived its time. It was very clear message that the high-debt, high-growth model<sup>33</sup> must be reorganized to pave the way for invention-centered scientific civilization based on the market driven entrepreneurial innovations.

In this context, Korea's efforts to move away from the manufacturing-led economic expansion to service industries-led growth were seriously constrained by the underdevelopment of social sector, particularly its individual consciousness. The underdeveloped individual consciousness badly hampered creativity, independent thinking, which is clearly visible in the various knowledge-based service industries. Among the affected sectors, Korea's IT industry prominently shows a dual structure. On the one hand, software sector that requires creativity, independent thinking and individual experimentation is almost insignificant compare to the IT manufacturing sector where capital, technical skills, and resource mobilization play important role shows tremendous growth. Importance of IT industry has been highlighted by the fact that it was seen as heralding a third industrial revolution, involving a Schumpeterian process of replacement of one 'product system' by another.

By continuing on the similar 'product system', Korea's IT industry shows strong grip of old product system. It has recorded an astonishing growth since the 1990 's. In terms of production, industry has grown tenfold, from 15.2 trillion won in 1990 to 141.7 trillion won in 2000. Despite a lackluster economy in 1997, industry showed a 33.2% growth rate, and maintained growth rates of 16.7%, 30.5% and 23.2% in 1998, 1999 and 2000 respectively. Meanwhile, by sector, telecommunications services constituted 20.22%, IT equipment constituted

<sup>33</sup> Robert Wade coined the term 'high-growth model'. For details, see R. Wade and F. Veneroso. 1998. "The Asian Crisis: The High Debt Model versus the Wall Street-Treasury-IMF Complex," *New Left Review*, 228, pp. 3-24.

74.21%, and software constituted 5.57% of the overall IT production in 2000, reflecting the orientation of the Korean economy towards the traditional tilt towards manufacturing industries (IT Industry Outlook of Korea, 2001).

Such a high share of the IT equipment sector can be attributed to the high proportion of IT equipment exports in Korea ' s IT industry, constituting 40.5% of total production of the IT industry in 2000. Since most of the IT industry exports come from the IT equipment sector, the share of IT equipment is high compared to other countries. Table: 7 shows sharp imbalance in Korea's IT industry with insignificant share of software sector vs. dominant share of hardware sector.

<b>Table: 7</b>	<b>Korea's IT industry production</b>				<b>(trillion won)</b>
Category	1997	1998	1999	2000	2001
Telecommunications Services*	17.0	17.9	21.7	28.6	33.7
IT equipment	55.0	65.6	86.8	105.2	98.2
Communication equipment	13.8	14.2	20.0	21.8	24.2
Information equipment	9.8	10.7	15.7	19.9	18.5
Broadcasting equipment	0.6	0.7	0.9	1.6	2.0
Component	30.9	39.9	50.3	62.0	53.5
<b>Software</b>	<b>3.5</b>	<b>4.7</b>	<b>6.5</b>	<b>7.9</b>	<b>10.5</b>
Total	75.5	88.1	115.0	141.7	142.4
Rate of increase	33.2%	16.7%	30.5%	23.2%	0.5%
* Telecommunications services include communication service such as telephone service and broadcasting service.					
** Korean won/ USD exchange rates applied - 1997: 951.1 won, 1998: 1,398.9 won, 1999: 1,189.5 won, 2000: 1130.6 won per 1 USD					
*** 1,250 won per 1 USD was assumed for 2001 and after.					

Source: IT Industry Outlook of Korea, 2001

It is important to note that in the process of knowledge creation, collective solidarity plays negative role.<sup>34</sup> Development of knowledge is closely related with the individual freedom and confidence. Korea's IT industry demonstrates the mirror image of this logic where it developed a vast manufacturing prowess but it remains weak in the crucial software sector.<sup>35</sup>

This empirical reality confirms that Korea's jittery moves towards knowledge economy are the by-product of its social regulations, which seriously undermine the development of individual consciousness. As noted earlier, Korea's conservative developmental alliance derived its power from the traditional collective solidarity and in turn strengthened the grip of traditional order, which is now constraining Korea's ability to firmly establish itself in the global knowledge economy. Next section sees what concrete policy lessons can be drawn from this analysis.

<sup>34</sup> Knowledge creation is a process where individual consciousness is essential to maintain creativity, confidence to raise questions, and freedom to observe and experiment. McClelland (1976) argues that individual need for achievement is the source of entrepreneurship.

<sup>35</sup> It is noted that share of computer hardware in GNP grew from 3.5 percent in 1984 to 11.8 percent in 1990; however, the share of software sector in GNP is strikingly small, though it has risen just over 0.5 percent in 1984 to 4 percent in 1990. See *Electronics Korea*, March 1990.

## VI. Transformation of Collective Solidarity in Korea: Relevant Policy Options

Long-term sustainability of economic growth lies in the balanced development of country's social and economic spheres. This balance enhances the competitiveness of each sphere. However, in reality economic growth often creates winners and losers. Korea is not the exception of this realist trend. There are ample evidences showing that post-war Korean development came at the cost of social underdevelopment.

The causes of this social underdevelopment lie in Korea's distinct developmental philosophy that incorporated state and business in a close consort, which supported continuation and consolidation of traditional collective order.

However, after the decades of rapid economic expansion, underdeveloped social sphere has emerged as the vital constraining factor in Korea's move towards the knowledge economy. Repressed individual consciousness is expressing itself in the sharp intellectual deficit that Korea is registering in the various knowledge-based service industries (see Table: 1). The nature of this intellectual deficit is so invisible that many economic indicators do not reflect the true extent of this problem. Even though, this deficit is clearly visible in the areas such as culture, education, and technology.

How to correct this mismatch between collective and individual consciousness? What can be the possible policy options for the Korean policy makers? Korea's quest to strike a balance between manufacturing and knowledge-based service industries can benefit from the careful scrutiny of its social regulatory regime, which is now acting as a constraint to the development of knowledge industries.

Based on Durkheim's proposition, following policy options can be contemplated:

1. Government can initiate policies to form and support professional group's that can provide a way out to the age-old social regime of collective solidarity. These professional groups can satisfy societal needs to show collective solidarity. This professional group solidarity will not undermine individual consciousness as it reflects advance stage of division of labor.
2. To enhance individual consciousness, education system can be transformed from present mass-literacy oriented conformist system to the specialized research-oriented system.
3. Corporate management can safe guard employee's individual rights by moving towards a more transparent regime of corporate governance.
4. In the narrow economic terms, empowerment of individual consciousness can also be realized by cutting taxes to give more buying power to the individuals. It will boost individual confidence. In the other words, it's time for Korea to create it's own demand and also give power to it's people as next round of growth will come from the empowered people not from the powerful government.<sup>36</sup>

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<sup>36</sup> Among many other vulnerable East Asian economies, Korea seems to have taken lead to reform the old system,



## II. Conclusion

This study concludes that the causes of Korea's economic vulnerability are deeply rooted in the economics of social regulations. It notes that the dynamics of Korean development did not cause the shattering of traditional social order based on the collective consciousness, as it did happen in Europe, rather development helped to strengthen it. This strengthening of collective consciousness helped Korea to develop powerful manufacturing industries as growing collective solidarity worked as a vital motivating force to mobilize, discipline and control labor force.

However, fundamental changes in the domestic economic structure and the rise of borderless global knowledge economy altered the fundamentals of competitiveness. In the changed context, profit ratios in the manufacturing started to pale in front of knowledge-based service industries. This transformation demanded a new balance between manufacturing and service industries. Korea that built its prosperity by overly relying on the success of manufacturing industries seems to be in the vicious manufacturing-trap. The social regime that helped Korea to build strong manufacturing capacity is now constraining its move way from the manufacturing. Over strengthening of the collective consciousness, which in the past worked in favor of manufacturing, has started to negatively affect Korea's move towards the knowledge economy.

Theoretically, Durkheim's social facts theory endorses the basic assumptions of this analysis that Korea's institutions of collective consciousness have created a social regulatory regime that is undermining the development of individual consciousness. Empirical analysis of Korea's IT industries, which is overly tilted towards manufacturing, confirms the power of constraints originating from the social regulations. Thus, theoretically and empirically arguments supports that Korea's economic vulnerability has roots in the wide gulf that exists between its changed economic sphere and stagnated social sphere.

In a bid to help regain Korea's decreasing competitiveness, effective policy regime is needed to bridge the lingering gap between social and economic development. On the policy front, this paper proposes that Korea needs to replace mechanical solidarity of past era with new organic solidarity which can be maintained by civil law, namely contract law. Growth of organic solidarity guaranteed by legal system can help develop professional association based on the autonomous individual, which can lead the next phase of knowledge-based service sector-led Korean development.

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