The Transformation of Development Strategy in Korea: A ‘Risk Society’ Perspective

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ABSTRACT
After undergoing rapid socio-economic and political transformation, the Republic of Korea has arrived at the stage of development which Beck refers to as a risk society. Korea has experienced both sides of the risks which accompany modernity: the wealth associated with an advanced economy and also the hazards which are by-products of industrial society. However, the Korean case is distinctive, this article argues, due to the state's role in calibrating and managing risk. Whereas prior to the financial crisis of 1997-98 state elites privileged big business and exposed workers to higher levels of risk, calculations of the costs and benefits of risk have changed since the crisis. A notable outcome has been the straining of traditionally close ties between the state and the chaebol.

Keywords: Korean society, capitalism, developmental state, economic development, risk,

Introduction
In just a few decades, the Republic of Korea (ROK, Korea) has transformed into an advanced industrial society. Its rate of economic growth has been consistently above regional and global averages (Amsden 1992). Korea has also undergone significant demographic change, with the vast majority of the population living in urban areas. In referring to Korea’s transformation as ‘compressed modernity,’ Chang (1999, 31) aptly captures the rapidity of these changes. The four-decade long growth phase halted in 1997 due to the Asian financial crisis, which resulted in the enactment of neo-liberal reform, the forcible restructuring of the chaebol (conglomerates), and widening unemployment and inequality.

There are thus two main stories about Korean development. The first revolves around the economy’s ‘miracle’ phase, and the second around the ‘crisis’ phase. The first seeks to explain how Korea grew so rapidly, and the second concentrates on how the growth phase ended so abruptly. While the crisis wrought change to the role of the Korean state, certain continuities transcend the events of 1997-98. Depictions of the financial crisis as a ‘watershed’ (Garnaut 1998) in economic stewardship assume that institutions can change rapidly. However, whereas events as financial crises may elicit change in institutional form, the purpose of institutions tends to remain focused on traditional goals such as economic development (Peng and Wong 2008).

In its initial stages, relations between the state and big business were close but tense. This ‘developmental alliance’ (Hundt 2009) or ‘risk partnership’ (Woo 1991) was close insofar as state leaders consulted the chaebol about the direction of economic policy, but tense because the two sides did not always agree on that
direction, or on the way in which business should be involved. Further, relations were a state of mutual dependence, in that both parties shared an interest in rapid and sustained growth. This, in turn, shaped relations between state and society. Rather than attaining legitimacy via popular consent, authoritarian governments acquired ‘performance legitimacy’ from their stewardship of a rapidly growing economy. If only the benefits of performance legitimacy are considered, the task was difficult enough but straightforward, but it could become impossible if rulers also had to manage the costs of the risks inherent in rapid development (Thiers, 2003, 243).

This article analyses Korea as a risk society (Beck 1992b). The concept of risk society provides a framework for examining the impact of modernity, and in particular human-induced changes, on society. It has, for instance, been used to examine micro-level issues such as the adverse effects of technological and scientific advancements. Recent examples include the explosion of the spaceship Columbia in 2003, and the tragic side effects of Thalidomide (Jarvis 2004, 307).

This article, in contrast, focuses on the macro-level, and specifically on state elites’ calculations of risk in the course of Korea’s modernisation. It argues that, in response to changing external conditions and the democratisation of the ROK, the state has recalibrated the chaebol-centred development strategy with the goal of producing a more equitable distribution of the costs and benefits of risk. The state has been reflexive in that it has attempted to redefine its relations with the chaebol and society. Such ‘reflexive modernization’ (Beck 1992b) is a feature of risk society, in which public administrators demonstrate a willingness and capacity to examine their calculus of risk in accordance with public concern. Reflexive modernisation ‘can help explore the connection between society, business and government at the global, regional, national and local contexts, enabling these different levels of influence to be understood in their entirety’ (Pick and Dayaram 2006, 172).

This article proceeds as follows. The next section reviews the risk society literature, and explains how it assists our analysis of Korean development strategy since the 1960s. While conceiving of the period as a continuum, the article deems the crisis to be a turning point in the risk partnership between the state and capital, and in the state’s relations with society. Consequently the article compares these two sets of relations prior to and since the financial crisis. It concludes by considering the costs and benefits of risk in Korean modernity.

The Prism of Risk Society
Beck depicts late modernity as a state of ‘organised irresponsibility’ (1992a), in which ‘we increasingly live on a high technological frontier which absolutely no one completely understands and which generates a diversity of possible futures’ (Giddens 1999, 3). Individuals, groups and institutions determine the degree of risk that they

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*I am grateful for the thoughtful comments offered by the reviewers from SJEAS. The article was completed while I was a visiting fellow at the International Center for Korean Studies, Seoul National University. I use the McCune – Reischauer system to romanize Korean names and words, except when people have chosen to spell their names in a way which does not comply with that system.
will assume, but generally it falls to the state to act as risk manager. The state ‘trades depth for breadth’ as it tries to respond to numerous different publics by conducting ‘the risk management of everything’ (Power 2008, 24). For Beck, ‘risk society’ is a systematic way of dealing with the problems that modernity produces and induces.

Beck thus highlights the growing awareness of risk, and its centrality to public policy. However, a ‘risk society is not intrinsically more dangerous or hazardous than pre-existing forms of social order’ (Giddens 1999, 3). For Beck, ‘Risk does not mean catastrophe. Risk means the anticipation of catastrophe. [...] Without techniques of visualization, without symbolic forms, without mass media, etc., risks are nothing at all’ (2006, 332, emphasis in original).

Some risks are more serious than others, and some are more controversial because there is a degree of human agency in their determination. It is thus useful to distinguish between external risk and manufactured risk. External risk ‘may strike individuals unexpectedly (from the outside, as it were), but [happens] regularly enough and often enough in a whole population of people to be broadly predictable,’ whereas manufactured risk is ‘created by the very progression of human development, especially by the progression of science and technology’ (Giddens 1999, 4). In other words, external risk, as exemplified by ‘Human dramas – plagues, famine and natural disasters [...] differ essentially from [manufactured risk in that it is] not based on decisions, or more specifically, decisions that focus on techno-economic advantages and opportunities and accept hazards as simply the dark side of progress’ (Beck 1992a, 98, emphasis added).

If we understand risk as a quality which is inherent in numerous processes and which can – to some degree – be managed, ‘the problem of social accountability and responsibility irrevocably arises’ (Beck 1992a, 98). In this sense, risk only exists ‘when there are decisions to be taken [...] The idea of responsibility also presumes decisions. What brings into play the notion of responsibility is that someone takes a decision having discernable consequences’ (Giddens 1999, 8). In cases of manufactured risk, ‘the connections between risk, responsibility and decisions alter. [...] Given the inherently ambiguous nature of most situations of manufactured risk, and the inherent reflexivity of these situations, responsibility can neither easily be attributed nor assumed’ (Giddens 1999, 8).

What types of risk are most subject to reflexive human agency? In devising a hierarchical ontology of risk, Jarvis (2004, 309-11) divides risk into five categories: systemic, sovereign, production system, technology, and project risk. As we move from the upper-order levels of risk to the lower, the capacity of risk managers to control risk decreases due to a higher degree of inter-connectivity. Financial crises, which have the potential to affect all states by dint of their links to the global financial system, meet the definition of systemic risk; sovereign risk generally refers to factors which affect the quality of governance within the nation-state. At the other end of the spectrum, concerns about the unintended consequences of nuclear technology (such as the Three Mile Island and Chernobyl accidents) and the failure of health and safety processes (such as the Bhopal gas leakage) fall into the categories of technology and project risk respectively.

To date, most research using the risk society framework has focused on
technological failures such as the Chernobyl disaster and the fears it caused in Europe. Environmental concerns more generally have also been a focus of research. There has been relatively little research conducted in the disciplines of political science and international relations (Jarvis 2007, 23); instead, most projects have been conducted in the field of sociology. What is more, there has been relatively little research conducted on East Asia; Europe, instead, has been the main geographic focus. Dingwall (1999) questions the applicability of the concept outside of Germany, while Jarvis (2007) argues that Beck may have underestimated the capacity of the state to respond to the pressures of globalisation.

There is growing evidence, however, that political scientists recognise the utility of the risk society approach. Wishnick (2005, 9), for instance, employs the approach to discuss ‘non-military security threats’ such as the adverse impact of China’s environmental problems in relations with its neighbours in Northeast Asia. Similarly, Thiers (2003) questions the capacity of Chinese leaders to adequately respond to the complexities which accompany rapid development, such as the SARS public health crisis. Pick and Dayaram (2006) use risk society to explain how India has sought to devise optimal strategies for economic development, and the efficacy, for instance, of grafting new ideas onto old social structures. Beck (2006), meanwhile, notes how the conscious decision to pursue ‘small government’ in the United States has shaped the spectrum of responses available to the state in the war on terror.

Having achieved modernity relatively lately and rapidly, Korea poses an analytical challenge to the risk society framework. Rather than being a ‘victim’ of modernisation, Korea has been a spectacular beneficiary (Han 1998). Indeed, it is precisely the lack of modernity – or ‘limping modernization’ (D. Kim 1998) – that distinguishes the ROK from other states. Korea thus represents a ‘dual risk society’ (D. Kim 1998), being subject to the dangers inherent in modernity as well as the dangers accompanying the uniquely Korean developmental trajectory. A series of abnormal accidents in the mid-1990s highlighted the rapidity of Korea’s modernisation, to the extent that some Koreans referred to their society as a ‘republic of accidents’ (Chang 1998, 208). The collapse of the Sampung Department Store and of the Sôngsu Bridge, and a gas explosion in a Daegu subway station were atypical of industrial society (Yee 1998, 91-2). Whereas human-induced disasters occur elsewhere – for instance, the collapse of the Minnesota Bridge in 2007 (Wald 2008) – it is rare for any industrial society to endure such a series of unfortunate accidents.

These accounts of risk society concentrate on the hazards which have afflicted Korea, but risk also benefits advanced industrial society. Rather than viewing risk solely in negative terms, ‘it can quite often be seen in a positive light, in terms of the taking of bold initiatives in the face of a problematic future. Successful risk-takers, whether in exploration, in business or in mountaineering, are widely admired’ (Giddens 1999, 3-4). The willingness to accept risk is an essential element of capitalist society, and a defining feature of the Korean variety of capitalism has been the massive investments made by the chaebol in heavy and chemical industries, which the state identified as growth engines in the 1970s. More so than even Japan, a state with which the ROK is often compared, Korea typifies the dynamism of modernity. The ROK has embraced new ideas during the past four decades, and adopted new
technologies with enthusiasm. And when faced with a financial crisis which left the state facing default, Korea responded with a zeal which Japan has failed to muster during its two-decades-long economic downturn (Zielenziger 2007, 258). That is, state elites demonstrated reflexivity when faced with evidence of the deleterious effects of the extant development strategy.

This article emphasises the assessments and the regulation of risk in the process of Korean development. States determine the levels of risk to which societies are exposed, and also devise packages to compensate the victims of risk (Mythen 2004, 54). During the rapid phase of Korean development, the state, in conjunction with big business, devised a strategy of socialising the risks of economic growth. That is, a political decision was made to spread the risks entailed in financing national economic development. By its use of ‘financial repression’ (Woo 1991), the state allowed the chaebol to access funds at low interest rates and thus enabled Korean firms to undertake expensive and risky investments. Depositors were also forced to accept low interest rates, and thus subsidised the costs of corporate investment. In turn, the chaebol were expected to invest and create jobs.

The financial crisis laid bare the downside risks of this strategy, and the Kim Dae-Jung and Roh Moo-Hyun governments calibrated the costs and benefits of risk in a markedly different manner during the recovery period. They responded to a less permissive calculus of risk, and illustrated a willingness to consider the concerns of the public and workers about the privileges granted to the chaebol. The Kim and Roh governments were instinctively more responsive to demands from trade unions to protect the hard-won gains of workers. The state thus sought to partially renegotiate its relations with big business and civil society amid conditions of increasing complexity. In Korean risk society, unions and other non-state actors could ‘challenge official assurances, leading to public distrust and anger towards state administrators. In democracies, risk society unravels the progressive-era model in which public administrators are seen as technical experts, insulated from direct public pressure’ (Thiers 2003, 242). The remainder of this article proceeds to detail the Korean risk partnership and its renegotiation in the post-crisis period.

**Designing the Chaebol Model**

While the lineage of the strong state can be traced deep into Korea's history, during the first half of the 20th century the Japanese colonial state served as a model for the state-led development that Korean state elites pursued from the 1960s. It was no coincidence that Park Chung Hee, president from 1961 to 1979, viewed the colonial state as an exemplar for Korean development. For Park, the state was uniquely placed to facilitate the pursuit of the intertwined goals of national security and economic development. In practical terms this meant that while the Korean state possessed considerable capacities to suppress dissent and to penetrate society, it also needed to induce big business into economic activities that would contribute to national development by subsidising the costs of risk.

Many of Korea's post-war business leaders began their careers during the Korean War and the American-led efforts to rebuild the economy during the 1950s. A small number of these leaders formed close relations with state elites, providing
kickbacks in return for privileges such as the right to import key commodities. After Park seized power via a coup in 1961, his regime threatened to prosecute or jail business leaders on corruption charges. However, the regime did not act on these threats. It was the unique capacity of these entrepreneurs to act as agents of economic change that dissuaded the state from punishing them. The chaebol had increasingly come to dominate the economy and their potential contribution to national development was too great for the regime to ignore (T. Lim 1998, 468-69).

The state’s contribution to economic development lay in ‘industrial policy,’ or the selection of specific industries for promotion at crucial junctures in the developmental cycle. State leaders did not leave decisions to the private sector, but instead intensively engaged societal forces in economic development. Such activism was not inimical to capitalist development: ‘The very contrast between industrial policy and market forces is false and probably ideological. Industrial policy is not an alternative to the market but what the state does when it intentionally alters incentives within markets to influence the behaviour of civilian producers, consumers and investors’ (Johnson 1999, 48).

Korean policymakers – guided by a ‘pilot agency,’ the Economic Planning Board – were aware of the delicacy of the task at hand. The state’s disciplinary power stemmed from its capacity to contribute to capitalist development (Chibber 1999, 320). The state presented firms with material incentives to enter new industries – in the form of subsidized credit, protection of domestic markets, adjustment loans, and labor repression. It could not coerce them as such (Kong 1995, 635-37), and instead provided incentives for the chaebol to participate in a risk partnership.

More so than in other East Asian states, a small number of family-owned conglomerates have dominated access to, and the use of, economic resources in Korea. Although ‘the “strong state” has been the focus of much of the literature, the strength of the business sector has received less attention’ (Kang 2002, 191). One form of power has been the sheer scale of the chaebol’s concentration of economic activity. For instance in 1998 the top 30 chaebol accounted for roughly half of national assets, debt and sales, as well as 70 percent of profits and exports. In the same year the top-five chaebol controlled about one-quarter of assets, debts and sales, and over half of exports (E. Lim 2002, 3). In this sense, the chaebol enjoyed the benefits of the risks which were inherent in Korean modernization, and in return the conglomerates contributed to national economic development by creating employment, wealth and new industries.

The expansion of exports, rather than profitability, was the key criterion for ongoing access to the ‘policy loans’ provided by the state to participants in projects deemed of national significance (Burkett and Hart-Landsberg 2000, 153). In particular, the high levels of economic concentration in the chaebol, and the tendency of single families to control the conglomerates through webs of cross-ownership, gave the chaebol a significant degree of leverage over the state. Policies that encouraged the chaebol to become ‘national champions’ and that implicitly indemnified chaebol owners from the true costs of their investment risks, exacerbated these problems. The fear that the chaebol could collapse and drag down a substantial share of national economic activity with them – the ‘too big to fail’ issue – generally dissuaded the
state from enacting measures to discipline the chaebol (Haggard 2004, 73-4).

The chaebol-centred development model delivered four decades of economic expansion to Korea. However the risk-socialisation strategy, whereby state elites inoculated chaebol owners from the negative side of the risks associated with the growth of their business empires, brought with it myriad problems. The chaebol strategy of expansion had become inefficient, causing over-concentration of economic power, excessive reliance on bank loans and debt, adversarial relations with labour, and corruption. It has also encouraged groups to support loss-making enterprises (Chang 1999, 39-41). Coming from different sides, both labour and the state began to view big business in adversarial terms.

Labour and Financial Crisis
If the chaebol were, collectively, a net beneficiary of the risk-socialization strategy, the costs were borne by workers and society more broadly. A high-capacity, repressive state suppressed civil society for several decades after the founding of the anti-communist Republic of Korea in 1948. The student movement and churches played a crucial role in building class consciousness among workers in the 1970s and 1980s, providing the vanguard of a citizens’ movement capable of opposing the repressive state. The minjung (people’s) coalition formed across traditional class boundaries to great effect, providing a critical mass of support for democratization in 1987 (H. Kim 2007, 213-14).

As Korean firms expanded into heavy industries, the capacity of trade unions to organize grew commensurately. The capacity of Korean unions in these sectors to win wage increases and job security for their members strengthened well equipped unions, but masked a highly uneven distribution of organizational capacity and unionization levels. Unions were strong in high-end manufacturing but weak or largely inactive in most other sectors. Whereas some large enterprises recorded union membership of up to 85 percent, for small-and-medium enterprises the figure was less than 3 percent (Burkett and Hart-Landsberg 2000, 209).

By the 1980s the limits of Korea’s ‘corporatism without labor’ were becoming apparent. The government passed a raft of amendments to the Labour Relations Law in a secret pre-dawn session of the National Assembly in late 1996. The aim was to increase flexibility by making it easier for firms to lay off workers (Kong 2006a, 371). Trade unions strongly opposed the removal of employment protections, and called strikes which disrupted economic activity. Under pressure to end the strikes, the government agreed to repeal the most restrictive elements of the new legislation in March 1997. A compromise was reached whereby trade unions acceded to limited job security in return for greater freedoms for union activity.

In the decade prior to the crisis, state elites became increasingly frustrated about the monopoly power of the chaebol, but the capacity of the state to discipline the chaebol was limited. Three elements of excessively risky behaviour by the chaebol, discussed below, illustrate the shift towards a conflictual mode of state – business relations and some re-negotiation of the risk partnership.

First, financial liberalisation from the 1980s was advantageous to the chaebol in their relations with the state. During the Heavy and Chemical Industries project of
the 1970s, the state exercised substantial control over domestic financial institutions, and provided loans to those business groups that participated in projects of national priority. The liberalisation program gave the chaebol perverse incentives to borrow funds from overseas, especially through short-term loans. Access to international capital markets allowed the chaebol to continue expanding free of the oversight of domestic supervisory agencies. The financial sector reforms permitted the launch of non-bank financial institutions (NBFIs), which provided funds from foreign institutions at cheaper rates than domestic banks. Borrowing from the unregulated NBFIs soon outstripped that from the official sector (Cho 1999, 9-14). The chaebol used short-term loans from NBFIs to finance their long-term investments and speculative activity. Even though the state's disciplinary capacity had decreased, international banks allowed the chaebol to continue lending on the assumption that the state would bail them out (Hahn 2003, 94-5).

Second, the chaebol demonstrated a greater willingness to flout government directives. A good illustration of this tendency can be found in the failure of the ‘core industries’ policy that the Roh Tae-Woo and Kim Young-Sam governments pursued. Both governments sought to reduce the chaebol’s concentration of economic power by restricting them to three ‘core’ spheres of business. The chaebol had long cross-subsidised their business activities, using profits from one sector to invest in an entirely different one. They viewed the core industries policy as an effort to dismantle their business empires. Nonetheless, the state had limited capacity to enforce the policy. Roh could only exhort the chaebol to comply voluntarily, and justified his approach several years later: ‘So the direction of economic policy at that time was to tell the chaebol that they had to restructure for their own sakes and for the sake of the nation’ (quoted in Y. Kim 1999, 437).

Third, the chaebol’s sustained accumulation of debt began to impact on the national economy. Given the low profitability of the chaebol in the early 1990s, the stage was set for a credit crunch. Evidence that the chaebol model was faltering was not difficult to find. A mid-sized chaebol, the Hanbo Group, declared bankruptcy in early 1997. Following the group’s collapse, auditors discovered that Hanbo had bribed government officials in order to secure loans. Hanbo’s loans allowed the group to record a debt-to-equity ratio of almost 2,000 percent, which was three to four times higher than most chaebol groups (Schopf 2001, 709-10). The government nationalized Hanbo, but the collapse shook investor confidence in Korea. Investor panic spread across Southeast Asia in the second half of 1997, and lenders soon became concerned about the debt levels, investment patterns and corporate governance practices of the chaebol. By year’s end, Korea was forced to apply to the IMF for a loan big enough to repay the costs of actual and potential corporate failures.

Reassessing Risk
In return for a bailout loan from the IMF, the Korean government agreed to a range of changes: spending was reduced, decision-making structures were decentralised, the labour market was to be made more flexible, reforms were enacted to increase the quality of loans, and new regulations were introduced to improve standards of corporate governance. Furthermore, Kim Dae-Jung championed an overhaul of the
chaeból-centred growth strategy. At a press conference on the day after his election, Kim (1997) claimed that his government would ‘totally rescue firms from the chains of power and from the protection of power... only firms that adapt to the market economy and are victorious in global competition will survive.’ The president-elect believed excessively risky investment imperilled not only the chaebol but also the risk partnership. He saw the financial crisis as an opportunity to deliver much-needed but long-delayed change. ‘Cosmetic reform,’ Kim said in relation to the initial restructuring plans of the chaebol in January 1998, ‘will not be permitted this time’ (quoted in C. Lee 1998, 61).

Kim did not question the state’s prerogative to guide the process of economic development, and instead argued that the overly risky behaviour of the chaebol was the main cause of the financial crisis. The new government claimed that restructuring was the responsibility of the private sector. The Kim government proposed that the chaebol undertake ‘Big Deals’ (asset swaps) to reduce overcapacity and indebtedness. In the absence of voluntary participation, the state would dictate the terms of restructuring (Y. Lee 2005, 293-94).

However, the parties finalised few deals of substance. A frequent obstacle was the inability of the chaebol to agree on which party would control the merged entity, and how to dispose of outstanding debts. Sohn Byung-Doo, a former president of the Federation of Korean Industry (FKI), complained that the Big Deals were flawed because the state kept few of its promises. For instance, the FKI asked the state to provide $15 billion to expedite restructuring. It argued that the chaebol lacked incentive to finalise Big Deals without debt-equity swaps, low-interest loans and tax breaks. Sohn claimed that ‘the state abrogated responsibility for the [Big Deal] model of assistance... they kept dragging their feet’ (quoted in N. Lee 2003, 226).

The chaebol resented the state’s use of coercive power, such as setting timetables for compliance with restructuring. The state threatened to investigate non-compliers for illegal sales of shares and share price-fixing (G. Lim 1999, 225). An advisor to the FKI accused the state of intimidating the chaebol: ‘Is it negotiating to haul business leaders in front of the president and tell them to sign an agreement... would they even dream of resisting? This is close to a reign of terror’ (quoted in C. Lee 1999, 255-56).

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The state identified the corporate structures of the chaebol as a key source of the excessively high levels of risk in the development model. However, the Big Deals did not go as initially planned, insofar as they did not result in large-scale asset swaps between the chaebol. The crisis reduced the capacity of the chaebol to buy new industrial assets and forced them to sell some business units in order to reduce their debt-equity ratios. The IMF had requested that Korea lift restrictions on foreign investment, and consequently it became much easier for non-Korean buyers to acquire stricken local firms. By April 2004, foreign investors held 43 percent of the shares in companies listed on the Korean stock exchange. Sizeable portions of well known enterprises such as Samsung Electronics, POSCO and Hyundai Motor passed into non-Korean hands (Crotty and Lee 2002, 673-76; Zielenziger 2007, 233).

Foreign investors also played a crucial role in the government’s recapitalization of the banking sector. Due to their reputation for profligacy, the state did not allow the
chaebol to buy banking licenses. In any case, the chaebol's financial positions were too dire for them to take over banks. So again the state entrusted a vital task to foreign investors, whose ownership of Korean banks increased from 14.6 percent in 1997 to 37.3 percent in 2006 (Kalinowski and Cho 2009, 233-34). By permitting these changes in ownership structure, the state signalled a willingness to reduce risk levels by relying on foreign capital. Rather than the chaebol being primarily responsible for the creation of national wealth, part of this task fell to foreign capital.

The Incorporation of Labor

Amid the financial crisis, the government invited trade union federations to partake in the corporatist Tripartite Talks. This was the first attempt to establish a social pact in Korea, bringing together labor, government and business. It was an explicit effort to widen the risk partnership and to respond to public concerns about the extant development model. The pact expanded basic labor rights, allowed for the formation of a teachers' union, extended the application of medical insurance, and allowed laid-off workers to join a union. In return, trade unions agreed to the legalization of dispatch workers and redundancies in 'unavoidable' circumstances. Management was required to re-hire workers only if economic conditions improved. The pact thus largely removed the expectation of job security, although the government established a multi-billion dollar fund to compensate workers for job losses resulting from restructuring (Ha and Lee 2007, 910-11).

The unions had two main motivations for participating in the Tripartite Talks. First, the union federations argued that the risk-taking managerial style of the chaebol was largely responsible for the financial crisis. The unions viewed the talks as a way to introduce managerial practices that were more attentive to the social impact of investment decisions. Consequently, the unions recognised the value of positioning themselves on the side of reform during a national crisis (Burkett and Hart-Landsberg 2000, 200). In the spirit of 'burden sharing' promised in the Tripartite Talks, union leaders proposed that the restructuring of the chaebol proceed via job sharing and wage freezes. This was a form of 'business-first unionism,' whereby unions sought to save Korean companies for the sake of jobs and the national economy (Kong 2004, 26; 2006b, 118). Trade unions were willing to make concessions to management if jobs were saved. As the president of the Hyundai Motor Workers Union (HMWU) commented in April 1999: 'We have told the company to tell us what the union can do, how much we must cut off our wages and which fringe benefits we must make if we are to maintain employment' (quoted in Neary 2000, 3). In other words, unions sought a fairer distribution of the costs and benefits of risk in Korean economic development. They viewed the notion of burden-sharing as a step towards redressing the imbalances in the distribution of risk, which had hitherto favoured the chaebol.

Second, the talks went some way towards fulfilling the aspirations of trade union leaders to partake in routine politics. One union leader argued that the Tripartite Talks represented an opportunity for unions to offer input to economic policymaking for the first time: 'Labour could now be included and recognised as a pillar of the society, as a value in itself as an organised progressive force. In this way
you could philosophically change the way in which labour was perceived in society’ (quoted in Neary 2000, 4). In this way, unions sought input to the risk partnership, from which they had been previously excluded.

Despite the unions’ willingness to compromise, the government played the most forceful role in the restructuring process. In the absence of voluntary participation of the chaebol in the Big Deal process, the state dictated the terms of restructuring. Lee Kyu-seong, Kim’s initial appointment as Minister for Finance and Economy, commented, ‘the public must understand that reducing employment by 10 to 20 percent through restructuring is a way to prevent a situation where 100 percent of jobs are lost to unemployment in the future’ (quoted in Song 1999, 91). In this way, the state flagged that job losses would be part of the price which Korea would pay to recover from the crisis. The state expected both the chaebol and unions, as members of the risk partnership, to assume responsibility for the process of restructuring.

This stance left trade unions with less autonomy than initially envisaged. Problems arose when the union federations returned to their members with the details of the pact. For the government, the unions ‘responsibility’ included the difficult task of convincing their members to accept job cuts. Delegates voted to reject the agreement, which placed the brunt of the burden for reform on workers. Also, the promised buttressing of the social safety net would only apply to workers in big companies, which accounted for a minority of the workforce (Chang and Chae 2004, 432-34; Kong 2004, 34).

A discernible gap would open between ‘regular’ workers in sectors of the economy with relatively high levels of unionisation, and those ‘irregular’ workers who enjoyed low levels of protection. Irregular workers soon increased sharply in number, rising to almost 27 percent of the workforce by 2001 and 36 percent by 2007. However they earned less than two-thirds of the wages of the regular counterparts, and were three times less likely than regular workers to be covered by employment insurance (K. Kim 2010, 364-65). Most irregular workers were denied membership of regular trade unions, while also facing great difficulties in establishing their own unions (Joint Korean NGOs 2010, 57-58). In a very real sense, the brunt of the burden sharing in the post-crisis period fell on this growing minority of the workforce, while the unionised and protected remainder of the workforce enjoyed relatively stable working conditions.

While his critics expected Kim Dae-Jung to find common cause with trade unions, Kim’s natural constituency was the middle class. The middle classes felt that militancy was inappropriate during a national crisis, and the government capitalised on this sentiment to press unions into accepting redundancies. At a time when all sectors of society were facing economic insecurity, trade union campaigns focused on narrower conceptions of class interest attracted less support than broader social interests (D. Kim 2007, 189-90). As one union official recollected: ‘There had been and was a very strong mood among the members to fight, but members were worried about how their actions would be interpreted within the overall context of the economic crisis itself. They found it difficult to be seen as the people who rock the boat at a time of difficulty’ (quoted in Neary 2000, 4). The state sought to pressure unions into accepting the inevitability of job losses, as part of the new
One of the most dramatic confrontations involved the union which was generally considered to be Korea’s most militant and well organized. In early 1998, Hyundai Motors suggested that 10,000 workers accept voluntary redundancies for the company to survive. The HMWU instead sought to save jobs through wage cuts and job sharing. When the company rejected these options, 30,000 union members went on strike in July and August to oppose further redundancies and factory closures. However, after holding out for two months, the union acceded to the sacking of more than 200 workers and the dispatch of many others on unpaid leave. The government had threatened to send thousands of riot police to break the strike. Even though the members rejected it, the deal between the union leadership, the government and the company was ratified, and the strike came to an end (Neary 2000, 3-5).

The government proved adept at pre-empting links between unions and other elements of civil society, and retained a central role in articulating the appropriate balance between the costs and benefits of risk. For instance the worker-student alliance, a core plank of the democratization movement, was revived to support a strike by subway workers in April 1999. Despite sheltering workers on the campus of Seoul National University for several weeks, the students ultimately proved incapable of physically protecting the workers from the repressive powers of the state. Student leaders complained that their efforts to support workers did not attract widespread support: ‘There are a whole generation of young people in the universities for whom the student activists are very unpopular. They are too militaristic and their songs and language and idea have nothing to do with them’ (quoted in Neary 2000, 7). The subway strike was intended to instigate a rolling strike, but the harsh treatment of the subway workers dissuaded secondary action by affiliated unions.

The unions were reluctant to launch general strikes because the government had displayed little compunction about punishing union officials. This was evident in the Daewoo Motors dispute. The company declared bankruptcy in November 2000, and the government’s preference was for the carmaker to be sold to a foreign buyer. As part of government-sponsored ‘self-rescue,’ 20 percent of Daewoo’s workforce would be dismissed to make the company more attractive to prospective bidders. Workers from various unions protested against the conditions of the rescue, and mass rallies were held in November and December. However, the Daewoo union agreed to the conditions of the deal, arguing that rejection of the government’s conditions would cost all workers their jobs. Several hundred workers and their families barricaded themselves inside Daewoo’s Bupyeong plant in February 2001. Fearful that General Motors would retract its bid for Daewoo, the government deployed riot police to end the sit-in. Riot police forcibly ejected workers from the site (Kong 2006a, 372). In addition to acting against the strikers, the government arrested officials from the union.

Whereas the government displayed only conditional support for the inclusion of trade unions in policymaking, its attitude towards other social movements was much more accommodating. Kim Dae-Jung was concerned about the way in which chaebol were managed, and in particular the way in which founding families wielded disproportionate power over their corporations despite holding only a small percentage...
of shares. As part of a broader corporate governance reform agenda, the government sought to make the chaebol families accountable to their own shareholders. The Kim government recruited moderate civil society organizations to support elements of its chaebol reform agenda. Some representatives from civil society even served as Cabinet ministers. The Kim and especially the Roh governments viewed these organizations as a crucial ‘third sector’ which could spur on chaebol reform (H. Kim 2007, 216-19).

A notable recruit was Chamyǒ Yŏndae (People’s Solidarity for Participatory Democracy, PSPD), which focused on the promotion citizenship and improvements in procedural democracy. In keeping with its reformist path, PSPD sought to enhance the rights of minority shareholders and thus rein in the potential abuses of chaebol power (Lim and Jang 2006, 449-51). This ‘small shareholders’ movement,’ for instance, sought to ensure that chaebol called annual general meetings as required in their statutes. It also sought to improve managerial practices through the appointment of external directors to chaebol boards (S. Lee 2008, 448-49). A victory for the PSPD came in 1998, when it filed suit on behalf of 61 small shareholders against the Hanbo Group. Shareholders alleged that officials from Korea First Bank had accepted bribes in order to extend loans to Hanbo despite being aware of the steelmaker’s dire financial position. In 1998, the shareholders were awarded 40 billion won from former directors and bank officers (Zielenziger 2007, 257). In this way, PSPD won a victory against the high-risk and corrupt elements of the traditional risk partnership, and helped open the way to a more reflexive calculation of risk in Korea.

**Conclusion**

The calculation and management of risk has been central to Korea’s experience with economic development, but there have been some notable changes since the financial crisis. The risk society framework is an insightful means of interpreting these changes.

In the last 10 years the chaebol have been confronted more squarely with the costs of their investment decisions. The large-scale defaults and revelations of indebtedness exposed during that the financial crisis sapped the patience of state leaders, who subsequently recalibrated the costs and benefits of risk. While workers still bore a disproportionate share of the burden of the crisis through job losses and falling living standards, several of the chaebol were punished via the dissolution of their business empires – and in the case of Daewoo, with the collapse of the entire group. Despite these changes, the chaebol remain crucial to the generation of wealth in Korea. Groups such as Samsung and Hyundai are world-class producers in sectors as diverse as electronics, shipbuilding and automobiles, and Koreans take pride in the excellence of their products. The post-crisis restructuring succeeded in putting the chaebol on a more sustainable footing, which debt ratios being significantly reduced. The financial system enjoys greater levels of liquidity, and functioned relatively smoothly during the turbulence produced by the sub-prime crisis in 2008-09. Perhaps the ultimate legacy of the post-crisis is thus that it has reduced the sources of instability which plunged Korea into crisis in 1997.

Furthermore, state leaders have developed a new view on their role in risk management. The government has opened the economy to the forces of
globalisation since the 1990s, but in many respects this is anathema to the traditional remit of the developmental state. There are now fewer restrictions on foreign ownership in Korea and on Korean investment overseas. The reduction in its solidarity and shared purpose with the chaebol has influenced the state's derivation of legitimacy. With the inauguration of democratically elected governments since 1987, the performance legitimacy emanating from economic stewardship has become commensurately less important. The state has sought to correct the excessively pro-business calculus of risk, and has depicted itself as the sole legitimate representative of the masses – albeit a claim that was difficult to sustain given its willingness to use force to quell strikes. Nonetheless, the Korean state arguably demonstrated a greater and more sustainable degree of autonomy since the restructuring of the crisis period. It is less beholden to the chaebol, while also reluctant to accede to calls from unions for the implementation of a comprehensive welfare state. In this sense, it is truly becoming the risk-managing state which Beck envisages.

**GLOSSARY**

<table>
<thead>
<tr>
<th>Chaebol (財閥)</th>
<th>Family owned conglomerates, such as Hyundai and Samsung</th>
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<td>Chamyŏ Yŏndaе (參與連帶)</td>
<td>People's Solidarity for Participatory Democracy (PSPD), a progressive Korean NGO</td>
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<tr>
<td>Minjung(民衆)</td>
<td>People, as in people's movement</td>
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**REFERENCES**


The Transformation of Development Strategy in Korea: 
A ‘Risk Society’ Perspective


