Korea and Globalization

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For better or for worse, perhaps no state in the post-Cold War world has cast its lot with globalization as publicly as did South Korea (hereafter "Korea") under both the Kim Young Sam and Kim Dae Jung administrations. Yet the interplay between Korea and globalization has remained complex and somewhat surprising with several paradoxical consequences. In striking contrast to the extreme version of globalization put forward by some of its proponents in the West —those advocates of a "hyperglobalization school" who foresee an inexorable demise and irrelevance of the territorial nation-state —Korea's globalization drive was initiated by the government as a state-enhancing, top-down strategic plan. Seoul's globalization —especially President Kim Dae Jung's notion of participatory democracy and the market economy as mutually complementary —was espoused at just that moment when globalization had contributed to an expansion of the liberal democratic state's functional responsibilities and to an erosion of its capacity to deal effectively on its own with many of the demands placed upon it. Kim Young Sam's globalization drive started with a bang and ended with a whimper, but Kim Dae Jung has pursued a globalization drive of another kind, with greater determination and a sharper focus on knowledge-based economy. In Kim Dae Jung's Korea, there is apparently no escape from the payoffs and penalties of globalization. Globalize or perish!

When appraising the promise and performance of Korea's globalization drive, we need to adopt a broad framework that shies away from the neoliberal cant of hyperglobalization, with its heroic assumptions about the functional demise of the state, while also avoiding the neorealist and neomercantilist "globaloney" castigation, which does not adequately take into account the new patterns and dynamics of contemporary globalization. I define globalization as a series of complex, independent yet interrelated processes of stretching, intensifying and accelerating worldwide interconnectedness in all aspects of human relations and transactions such that events, decisions and activities in one part of the world have immediate consequences for individuals, groups and states in other parts of the world. Globalization is not the same as "globalism" or "universalism"; it does not refer to values or structures. This is not to say that contemporary globalization cannot serve as a conduit for the rapid spread of good and bad ideas or information and misinformation, nor to suggest that contemporary globalization is entirely benign or without any polarizing and marginalizing consequences. The importance of globalization for a trading state like Korea with an extremely high trade/GNP ratio is a close correlation between the extent of its openness and transparency and the degree of its global competitiveness.

The Rise of a *Segyewha* Fever

Although internationalization-cum-globalization had its antecedents in the early 1980s, it was not until November 17, 1994 that President Kim Young Sam formally outlined his own vision following the APEC summit meeting in Sydney, Australia. The so-called Sydney Declaration was more than a flash in the pan; this was made evident by a major reorganization of the executive branch of the Korean government to make it better suited for an all-out globalization drive. Since early 1995, a "globalization fever" has swept the country: no other buzzword has been more commonly used – and misused – among politicians, policymakers, business entrepreneurs, academicians and journalists. As if competing in a word game against the North Koreans and their single-minded projection of *juche* ("self-reliance") as a signature national identity, the Kim Young Sam government announced in early 1995 a decision not to translate the Korean word for globalization, *segyehwa*, but to keep the romanized form for international consumption as the official rendition of its globalization policy. Too many foreigners narrowly interpreted "globalization" to mean economic liberalization, according to the Ministry of Information and Communications, when in actuality *segyehwa* was intended to be far more comprehensive, embracing political, cultural and social dimensions.

The stage was thus set during much of the Kim Young Sam administration for this game to be played out in the politics of everyday life in Korea. Not surprisingly, the meaning of *segyehwa* varied from group to group: it was a strategic principle, a mobilizing slogan, a hegemonic ideology, or a new national-identity badge for a state aspiring to advanced world-class status. Kim Young Sam's globalization was primarily a status drive, however, an easy and cheap way of projecting a new Korean national identity as a newly industrialized and democratized country deserving membership in the Organization for Economic Cooperation and Development (OECD).

Soon after Kim Dae Jung was elected, in December, 1997, he faced the "greatest crisis since the Korean War," the danger of a financial meltdown. He quickly reversed his earlier stand against the International Monetary Fund (IMF) to become perhaps the world's most outspoken champion of that controversial institution. No other leader in recent years has embraced the core concept of globalization in an inaugural address as forcefully as did Kim Dae Jung: "The information revolution is transforming the age of many national economies into an age of one world economy, turning the world into a global village." He also argued that, in an era of global information flow and a borderless global economy, the culture industry has become one of the world's most fundamental industries.

On January 3, 2000, President Kim Dae Jung pronounced a new millennium vision: "The new century will be categorized as a period of globalization, digitalization and time management. Whether Korea becomes a first- or third-rate country will be dependent, to a large extent, on whether Koreans are ready to adapt to changes." The vision statement includes several overarching goals, such as making Korea one of the top ten information and knowledge superpowers in the world, developing the next-generation Internet and the information superhighway by 2005, and bridging the "digital divide" through productive welfare and balanced regional development. For Korea, there is no easy exit from globalization that would not entail a major economic disaster. The forward strategy for Korea is not a choice between exit and embracement but rather a constant adaptation to the logic of globalization dynamics and quickening economic, cultural and social product cycles.

A Promise/Performance Gap

Despite the rhetorical support of globalization as a shortcut to advanced world-class status, the Kim Young Sam government experienced a dismal promise/performance gap culminating in the November 1997 financial crisis. It is true that between 1966 and 1996 Korea achieved one of the fastest economic development rates of any country in the world, with its per capita income rising from $100 in 1960 to $10,543 by 1996, along with its entry into the OECD in 1996. By the end of 1997, however, Korea was experiencing its greatest economic crisis, with a sharp rise in the unemployment rate (from 2.5 percent in 1997 to a peak of 8.6 percent in early 1999), a precipitous fall of foreign-exchange reserves (to less than $5 billion in December 1997) and a progressive decline of its global competitiveness and its ranking on globalization scoreboards.

The performance of the Kim Dae Jung government during its first four and a half years in office (February 1998 to August 2002) is mixed though impressive in terms of key macroeconomic measurements. Thanks to a synergy of favorable short-term domestic and external factors (*e.g.*, the crisis-engendered national consensus, the determined reformist leader, a rapid rise of private consumption, the bailout program of the IMF and the World Bank, and the booming US economy fueling Korea's exports), Korea's GDP (gross domestic product) made a rapid recovery; from –6.7 percent in 1998 it rose to an impressive 10.9 percent in 1999, 9.3 percent in 2000, 3.0 percent in 2001, and a currently projected 6.1 percent for 2002. In addition, the unemployment rate dropped from 7.5 percent at the end of 1998 to 3.1 by April, 2002 and foreign-exchange reserves reached the $100 billion mark by September, 2001 to stand at $107.7 billion by April, 2002.

However, according to the annual *World Competitiveness Yearbook* of the International Institute for Management Development (IMD), from 1991 to 1998 Korea's performance in most of the macro-indicators declined. The greatest irony is that the largest promise/performance gap lies in Korea's steadily declining globalization ranking. The so-called globalization-driven state somehow managed to score the lowest possible ranking in the international/globalization input category, lower than in any other "input factor" for world competitiveness. Korea's global competitiveness ranking steadily declined from 26th place in 1995 to 41st place in 1999, only to rebound to 28th place in 2000 and 2001 and 27th place in 2002 (as of April 19). This declining ranking on global competitiveness scoreboards (at least until 2000) reveals fundamental structural weaknesses of an input-driven developmental model striving for bigger size (market share) as opposed to a knowledge-based economy striving for greater productivity. Korea's steady decline in virtually all global competitiveness input categories in the 1990s goes well beyond the immediate impact of the 1997/98 Asian financial crisis. Despite the remarkable short-term rebounds from 1999 to 2001, economic, political, and social reform and restructuring as a whole under the reformist administration of Kim Dae Jung have proceeded in fits and starts, lacking policy consistency, structural depth, and scope.

The starting point for explaining such a chronic promise/performance gap is to recognize that since 1987 profound changes have occurred in relations between the state and society in general, and among state, capital and labor in particular. The increasing scale and sophistication of Korea's economy amid rapidly changing globalization dynamics exerted ever-increasing pressures on Korea for a new development model at a time when the authoritarian developmental state of the past had been replaced by a new democratic state that was experiencing growing tensions with industrial conglomerates (*chaebol*), with labor and with a combative civil society at large. What emerged was not trilateral state-capital-labor collaboration but the uneasy and fragile balance of power that often leads to social and political stalemate and policymaking gridlock. Deregulation without state monitoring and supervision led to a dramatic increase in indebtedness in outward foreign direct investment (FDI) as well as a massive domestic lending spree that encouraged further investment in risky and speculative ventures. In the end, the liberalization measures that the Kim Young Sam government introduced only made the country more vulnerable to rapid transfers of “hot money” (*i.e.*, short-term loan). Another example of Seoul's poorly sequenced strategic decisions was the restrictions placed on inward FDI because of an abiding fear of foreign domination, a fear rooted in the unhappy history of Japanese colonialism. However, remarkable progress has been made during the Kim Dae Jung administration, with Korea's FDI inflows more than doubling from $7 billion in 1997 to $15.5 billion in 1999 and $15.7 billion in 2000, only to decline to $11.9 billion in 2001.

Despite the grand rhetoric of globalization and some improvements in macroeconomic indicators, Korea still appears as a strange and depressing political environment in which many formal motions are made without any actual movement. With no progress of any kind in political reforms, the rival parties have spent most of their legislative time in the partisan power politics of mutual recrimination and bloodletting. The state-capital collusion, Korea Inc., has been replaced by a tug of war between government and the *chaebol* and between government and labor. Corporate enterprise restructuring, the heart of the structural reform necessary to avert a second economic crisis, has occurred only sporadically and cosmetically. Of course, such restructuring is not possible without corresponding labor market reform. Given the inability of the state to formulate and implement a consistent and coherent globalization policy at a pace commensurate with the requirements of participatory democracy and globalization dynamics, the possibility of a second economic crisis should not be prematurely dismissed.

Contending Explanations

There is general agreement among analysts of the Korean situation that the main causes of the greatest crisis to hit Korea since the Korean War were largely endogenous, with the external factors (*e.g.*, the contagious effects of changes in the foreign-exchange and interest rates, or the panic behavior of international short-term hedge fund managers) serving only as the trigger. But there is no agreement on which among the many domestic factors —a leadership or policy failure, a failure of political system or xenophobic culture —played the most determinative role.

The second explanation is a systemic failure. Since 1987 there have been profound changes in state-capital-labor relations, with the consequence that the *chaebol* and labor have become more powerful and independent at the expense of the state. Caught between the powerful *chaebol* and militant labor as well as between the requirements of democratic consolidation at home and the requirements for enhancing Korea's competitiveness in the global marketplace, the state muddled through by redefining its globalization drive in symbolically popular terms of a grand national ego trip.

The third explanation locates the root cause of the Korean crisis in deeply embedded cultural variables. According to this explanation, Korea's cultural nationalism and *realpolitik* mind-set act as a powerful and persistent constraint on the *segyehwa* drive. Put succinctly, no fundamental learning —no paradigm shift —has occurred, only situation-specific tactical adaptation.

The Challenges Ahead

That said, however, Korea now faces a number of critical globalization challenges, each of which involves strategic decisions about how to survive and prosper in an increasingly interdependent world with high payoffs for the fittest and high penalties for the least adaptable. At the most basic level, that of worldview and national identity, there remains the challenge of transforming anti-globalization beliefs and behaviors into a system that extends beyond the diplomatic domain into general social relations. Just as nondemocratic beliefs and practices complicate the task of democratic consolidation far more than they do democratic transition, nationalistic beliefs and practices at the societal level make the task of globalization performance far more difficult than mere globalization pronouncements.

One of the major consequences of the division of the peninsula and the ensuing politics of competitive legitimation and delegitimation that South Korea would have to overcome if its *segyehwa* drive were successful is the bias toward bigness — a "bigger is better and biggest is best" edifice complex — as a defense mechanism for coping with its national identity angst as a small and divided nation surrounded by big and powerful neighbors (China, Russia and Japan). The incomplete 105-story Yukyong Hotel in Pyongyang, the tallest phantom hotel in the world at 300 meters, and the omnipresence of monuments (more than 35,000) are symptomatic of North Korea's *juche*-style edifice complex. The South Korean equivalent is the *chaebol* (industrial conglomerates), which are too dangerous if left uncontrolled, yet nearly impossible to control without causing serious dislocations in the labor, banking and export sectors, and without the state deviating too far from its market-economy principles and rule of law.

Size, traditionally the most important measure of status, inevitably propelled headlong *chaebol* expansion, sending false signals to Korean resource allocators and fair business competition at home and abroad. In the end, it was the reckless expansion and diversification of the *chaebols*, aimed at increasing their size rather than their productivity and profitability, which caused Korea's financial crisis. Even today, almost five years after the crisis and the reformist government, the global market shares of Korea's leading industries — with the exception of the computer memory-device industry — are impressively high, but the level of product competitiveness lags far behind that of advanced countries. The fact that the United States (a lone superpower), Singapore (a mini-state) and Russia (the world's largest in territorial size but viewed by most as a failed state) ranked first, second and last, respectively, among the forty-six developed and emerging market economy countries on the IMD's world competitiveness scoreboard from 1995 to 2000, speaks volumes about the relative importance of size versus versatility in information technology, innovation and state adaptability.

At the systemic level, *segyehwa* pronouncements cannot simply ignore the role of the state and the challenge of reformulating the nature, form and content of participatory democratic politics in the face of the complex intermeshment of local, national and global processes. Just as President Kim Young Sam's *segyehwa* drive was initiated by the government as a state-enhancing, top-down strategic plan, President Kim Dae Jung's espousal of participatory democracy and a liberal market economy were top-down, command-and-control reform plans. Instead of using market principles, the government resorted to command-and-control-style arm-twisting to get the top five *chaebols* to follow state guidelines for corporate restructuring and reform, but without much success.

A more serious challenge for the state is how to succeed in carrying out "social concertation" (a labor-management-government trilateral commission), since so many European social democracies have abandoned it in the face of globalization challenges. In the Korean context, such social concertation is all the more desirable and necessary, yet all the more problematic. Such social partnership—indeed, "social capital"—is difficult to establish because of the lack of social trust, the lack of strong top-level labor associations and the lack of institutional links between political parties and labor interests.

Despite or perhaps because of the remarkable transition to democracy in 1987, the ascendancy of a civilian government in 1992 and the first-ever victory of an opposition candidate in 1997, the politics of fragmentation prevail. In a sense, Korea has been chronically plagued by fratricidal regional factionalism and searing labor-management conflict and it is not yet geographically, socially or politically unified within its own borders. In what Koreans call the "IMF era," Korea seems to have acquired a new national identity as a "People's Republic of Endless Strikes." Korea's quick recovery has undermined the crisis-induced sense of national consensus, as each social group has begun to focus on fostering its own special interests, leading to the politics of fragmentation and endless strikes.

Finally, at the level of policy formulation and implementation, Korea is now faced with a series of systemic challenges. Each of these challenges will require a strategic decision on how to meet and minimize the clear and continuing dangers of systemic vulnerability, relational sensitivity and structural dependency that globalization poses, and how to redefine the role of the state as a knowledge- and information-intensive partner, catalyst and facilitator, rather than as a direct commander or provider of economic growth and prosperity.

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