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# The Post 1997-Crisis Democratization In South Korea: A Case Study of Industrial Relations

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## Abstrak

Riset ini ditujukan untuk mengetahui korelasi antara krisis moneter 1997 dengan proses konsolidasi demokrasi di Korea Selatan, terutama dalam hubungan industrial. Sebagai komponen pelengkap industrialisasi; negara, bisnis dan buruh secara alami sering melakukan aksi konfliktual. Seperti di banyak negara berkembang atau negara industri baru, Korea Selatan mengalami rezim negara perkembangan yang kuat dimana negara memiliki hubungan yang sangat erat dengan kelompok usaha, sementara kebijakan tenaga kerja mereka sangat represif. Tapi saat krisis 1997 terjadi, tiga pihak yang berkonflik dan bersaing sepertinya setuju dengan beberapa poin untuk menyelesaikan masalah yang timbul dari krisis. Karena itu proses konsolidasi demokrasi menjadi lebih mudah.

Pertanyaan mengapa krisis terlihat mempercepat demokratisasi perlu dicermati. Penelitian dimulai dengan menggali penyebab dan dampak krisis pada tiga pihak. Beberapa fakta menunjukkan krisis 1997 mempengaruhi semua sektor ekonomi, sosial dan politik pada bangsa, yang kemudian menjadi ancaman bersama bangsa. Beberapa program pemulihan strategis dibentuk, beberapa kesepakatan ditandatangani, dan pada saat itu konsolidasi demokrasi dikonfirmasi.

Kata Kunci: Demokratisasi, Krisis Moneter 1997, Korea Selatan

## Abstract

The field research was set to find out the correlations between the 1997 monetary crisis and the process of democratic consolidation in South Korea, especially in term of industrial relations. As complementary components of industrialization; state, business and labors are, by nature, often performed conflicting actions. Like in many other developing countries or newly industrializing countries, South Korea experienced a strong developmental state regime where state has a very tight relation with business group, while their labor policy was badly repressive. But as the 1997 crisis occurred, the three conflicting and competing parties seemed to agree to some points according to solve the problems affected by the crisis. The process of democratic consolidation seems to be swifted because of it.

The question of why the crisis seems to swift the democratization needs to be observed by then. The research was started by exploring the cause and impact of the crisis to the three parties. Some facts were found that the 1997 crisis affected all the economic, social and political sectors of the nation, which by any means it became a common threat of the nation. Some strategic recovery programs were set up, some agreement were signed up, and by then the democratic consolidation were being confirmed.

Keyword: Democratization, 1997 Monetary Crisis, South Korea

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## INTRODUCTION

As an effort in developing the mechanism of social-political system, democratization can be observed from many angle of approaches that are considered relevant for an analysis. In this research, the term of

democratization after the 1997 crisis in South Korea is a case-study about the relationship between government, business and labor, or better known in Korean as the *no-sa-jung* relations, in a comparison between the

era before and after 1997 monetary crisis.

## THE FORMULATION OF QUESTION

This research will set a comparison of some related aspects in the process of democratization in the *no-sa-jung* relationship that occurred before and after the crisis. The 1997 monetary crisis was reckoned as the important time aspect since it was very critical momentum in Asian, especially in regards to its global role. Since the early 1960's, the country gained an average 10% economic growth every year. This success has been developed based on strong government policies, called as a statist approach (etatism). Based on the same approach, the state developed a economic plan for national and sectoral business development, which has also been run based on this policy.

There are at least 3 important elements supporting the success of the economic development in South Korea. The first is when president Park Chung-Hee, in 1996, introduced economic policy accentuating on export than import substitution by maintaining the level of foreign currency exchange values close to virtual exchange value. Secondly, the level of saving and investment (more than 30% GDP) during more than 30 years was very helpful in assuring capital reservation accumulation. Thirdly, educated and highly motivated human resources were very important for fast development.

Haggard and Moon (1990), categorized South Korea's political structure as a strong nation which was predominated by top executives, bringing about a mechanism of decision making that was separate from social pressures. Therefore, there are 4 (four) factors that allowed South Korea to apply a statist approach: (1) the existence of non-political institutions able to intervene in private business; (2) the weakness of labor groups; (3) anti-communism authoritarianism; and (4) the existence of technocrats consciously developing the industrial structure with the main objective of creating economic independence (Lee,1997).

Like in other countries that had just started industrialization, South Korea also faced the same labor problems. There are three classical problems that

usually appear at the beginning of industrialization. The first is the weakness of their organizational ability. The second is no labor party or political party significantly speaking about laborer's interest. While the third is, that 'senior' labors were not ready to compete openly against the "juniors" (Amsden, 1989:192-193).

Park's very strict policies resulted him killed by his own former head of intelligence (1979). The assassination triggered the reforms movement to take action, especially by the students. Since the Kwangju tragedy, where some 200 students were killed by the army, later leading general Chun Doo Hwan to become the fifth president of South Korea. Under Chun, the political system became repressive. The policy of an export economy had brought in the foreign investment guaranteed by the government, but those gaining the benefits were the conglomerates (*chaebol*), while labor groups remained in a weak position.

The second pattern was when the civil government took over the government from the military regime, or when Kim Young Sam replaced Roh Tae Woo (1992). If the first pattern was said as state corporatism, that was when the state "the master" of the industrialization process, while the labor groups became "slaves".

Mutually beneficial traditions between the government and businessmen in the military regime was changed when Kim Young Sam, an opposition leader, was elected as president. He at once announced that he would never accept any political fundings from the business sector. His two former presidents, Chun Doo Hwan and Roh Tae Woo, were allegedly accused of accepting bribery. On the 17 April 1997, Chun was sentenced to life and Roh received a 17 year sentence.

The state's economic policy that has rolled for so long resulted in moral decadency in international as well as national level. In the 1960's and 1970's president Park's regime always provided international loan guarantees more for the shake of big South Korean corporations. Since 1990, the government had no longer provided any guarantees for the same loans, although the international investor still had an expectation that the government would do the same thing in the future.

The nation started showing symptoms of economic downturn in 1996. Industrial product growth decreased from 14% per year in 1995 to 10% in 1996. The growth level in the manufacturing sector selling also decreased from 20% per year in 1995 to 10% in 1996 (Smith in McLeod and Garnaut, 1990). 27% out of 30 noted conglomerates experienced debt-guarantee ratio more than 300% at the end of 1996, and some 14 other conglomerates even experienced the ratio more than 500%. The stock value in stock exchange decreased up to 35%. At least 50.000 workers in the sector were laid off in 1996. The foreign debt went up from \$102 billion at the end of 1996, and \$110 billion in October 1997, while the short-term debt percentage increased up to 59% in a year. In the end, the total deficit was \$23.1 billion in 1996, which was 4.8% of GNP.

To make its better economic performance, South Korean government made an effort to change its national economic structure through regulation reformation in the parliament. The first was the law of labors, which was presented to the parliament in 1996 that wanted to erase long life labor by offering the possibility of having layoffs. This was aimed to get a better level of competition of South Korean corporation (at international level) through a free labor market.

The second is the law draft on finance proposed in august 1997. This was the government effort to consolidate the control of trade and commercial banks in order to improve the autonomy of the central bank of Korea. Like the labor's law drafts, this draft remained in the parliament desk until the crisis attacked.

In the further development, Kim Dae Jung who was elected a president in early 1998 conducted a brave economic and political policy. The economic development increased up to 10,7% (the previous year was only 5,8%). the GNP was lifted up with the amount of \$1.839 in comparison to the previous year (in 1998 it was only \$6.742 becoming \$8.581, increasing 2 points at 37<sup>th</sup> world's best rank, previously at 39<sup>th</sup> rank) (Korean Annual 2000).

A polling conducted by monthly *Newsmagazine Win* to give score on Kim Dae Jung's first year work showed that 87,7 percent of the respondents assumed that Kim's solution to handle the economic crisis was very successful, and also the foreign support to his government was scored very satisfying (54.4% respondents). Even 82,1% respondents believed that the presidential departments under Kim Dae Jung was considered very good at solving the problems faced by Korea at the time (Jong-joo,1999).

From the above description, this research will be developed based on the main questions: *why did crisis seem to swift the process of democratic consolidation among the relations of government-business-labor in South Korea?*

## RESEARCH METHOD

This research is developed based on a library research including the content analysis of mass media and completed with a field research by using interview technique by conducting an era comparison on the efforts of democratization that had been done by government-businessmen-and labor before and after the crisis.

The field research conducted in July and august 2003 in Seoul and several industrial cities were sponsored by AUN-KASEAS, the Asian University Network with South East Asian study department located in South Korea.

## THEORETICAL FRAMEWORK

The discussion on democratization is basically a discourse on citizen or people's relations with the state. For such relations, there are some approaches can be applied to describe it. 1997 economic crisis as the intervening variable of the research will be analyzed at the beginning, in order to be understood as the trigger of the democratization process which had been running before and after the crisis. To present more supporting points of the evidence considered unique, the concept of societal-corporatism will also be applied.

## RESULT AND ANALYSIS

### CRISIS AND THE DAILY POLITICS

The perception on crisis always brings about the agenda for the government to make a new policy. There is a theoretical consensus that crisis gives a larger autonomy for the elites of the decision makers to make the options, and the pressures they face encourage them to make the very determining decisions.

Empirically, some evidences can be seen that crisis and the emergence of reformation are the two things that are related to each other (Grindle and Thomas, 1991:83). Crisis is always signaled by the increase of people's demand, big risks, more focused attention to only certain things.

The rational actor model assumes that the concept on uncertainty and the risk to explain that a reform has to be understood as an effort to 'satisfy' and gain 'profit'. In bureaucratic politics, daily routines and the decision makers are very predominant until the crisis encouraged the decision makers to act carefully towards the position, power, and influence in the abnormal situation. Each model predicts that the reform will not succeed until a crisis came to happen (Grindle and Thomas, 1991:83).

### DEMOCRACY TRANSITIONS

There are three sources of political values as the procedural component in achieving political development, which are considered suitable with what was said by Di Palma dealing with the transitional condition in democratic political development. To Guiseppe Di Palma, building democracy is like creating an artwork. Democratic citizen can be formed or engineered by the actors of politics in a certain condition. It works by applying some strategies, for example by making joint agreement among the actors to avoid the destructive actions (coup de tat, or violations), or making agreements that are required to settle down the conflicts, making any negotiations and other democratic rules (Di Palma, 1990:140).

When the phase of establishing agreement could be passed through, then it would be necessary to have consolidation by strengthening what they have

achieved. This kind of process, at a certain period of development, is believed to be able to make strong democratic political institution, so the conflicts in society can be managed institutionally (Di Palma, 1990:112;140). Huntington, in more details, presented 4 (four) transition patterns; (1) transformation pattern, when the government elites take the initiatives to lead the democratization effort, like in Spain after General Franco; (2) replacement pattern, that is when the opposing group lead the movement toward democratization, like in Argentina (against Peron) east Germany or Portugal; (3) "trans-placement" pattern, when democratization started passing through the process of "bargaining" between the government and the opposition, like what happened in Poland, Nicaragua and Bolivia, and (4) through the "intervention" pattern when the process of democratization is formed and forced by external actors like what happened in Grenada, Panama or Japan after the world war II (Huntington, 1991).

What happened during the period of mid 1970's and 1990's, there were 35 (thirty five) cases of democratization which 16 (sixteen) appeared through transformation, 11 (eleven) through trans-placement, 6 (six) through replacement and the other 2 through intervention. It showed that more than one third of the cases of democratization appeared through negotiation (consensus) between the government elites and the opposition group (Mas'ood, 1994:20-21). When Huntington wrote it; South Korea's case has not appeared yet. It seemed that the reconciliation done by Kim Dae Jung was categorized as trans-placement, that is, by giving amnesty to the two former presidents who were prisoners, improving small-middle business (Huntington, 1991:113). But, it could also be classified as the "intervention" model, according to the role of IMF and the foreign banking in the country's economic recovery. Seen from the procedure towards democracy, Kim Dae Jung choice could be categorized as the democracy consolidation.

Table 1: Strike Activity and Wage

	1987	1988	1989	1990	1991	1992	1993	1994
Wages								
Manufacturing								
Nominal wage	11.6	19.6	25.1	20.2	16.9	15.7	10.9	
Labor Productivity	3.5	14.8	3.6	12.5	15.6	12.2	12	
All Industries								
Nominal wage	10.1	15.5	21.1	18.8	17.5	15.2	12.2	12.7
Labor Productivity	10.0	14.6	7.2	15.0	16.8	9.1	7.4	
Real wage	6.9	7.8	14.5	9.4	7.5	8.4	7.0	6.1
Independent Variables								
Strike Activity								
Number of labor disputes	3.749	1.873	1.616	322	234	235	144	121
Strike volume	1.628	1.191	1.365	950	678	307	267	302
Labormarket conditions								
Unemployment rate	3.8	3.0	3.1	2.9	2.6	2.7	3.1	2.7

## DEMOCRATIC CONSOLIDATION AND THE POLITICAL LEARNING

The characteristics of the democratic consolidation is identified by the effort of establishing agreement of new role plays. Nurton, Guther and Higley (1992) assume that the democratic consolidation is a rule which integrates all procedural criteria of democracy and is also a state where the main political groups are willing to accept the existing political institutions and support the democratic regulations. Valenzuela also states that democratic consolidation requires procedural consensus to erase institutional deviations from democracy (Mainwaring, 1993).

One of the main characteristics of the existence of democratic consolidation is the transition period, which is the significant change on political and social institution. Even Vanezuela describes that transition symptoms encourage the consolidation (Mainwaring, 1993). It can be said that transition is the main factor for the consolidation continuation. Some other factors considered to support are; a certain historical experience, solutions of political conflicts, social conflict management, and the loosening of military role. In addition, it is necessary to note that the democracy consolidation can be conducted due to the agreement and cooperation of the elites. The role of public opinion is also the determining factor for the democratic consolidation to run (Higley and Gunter, 1992).

## MARKET

Market as the information mediator will strengthen the credibility of each side of the industrial relations. If the job market was too tight because the labor's organization was strong, for instance, the market would indicate the negative influence. If the effect were too bad, the public support to the labor's struggle would decrease. The market would restrict the bargaining area. If the labor's demand was more than what was offered by the market, they would lose their credibility.

The increase pattern of labor wage showed high-rise since 1987. The level of nominal wage raise motivated the productivity consistently in that year. The wage raise was increasing higher for the next 5 years until 1992. The ratio of wage payment and GNP increased since 1987 convincingly, and in 1992 the comparison reached 61% of 51,2% in 1986. As a comparison, the ratio was only around 50% in 1980 - 1986.

The economic condition during democracy era also supported the wage raise. The job market was very tight in 1987; unemployment (in non-agricultural sector) decreased until 3,8% of average 4,9 in the last three years, and continued decreasing until 3,1%. However, the real wage raise was higher in 1988-1989 than in 1991-1992, even though the number unemployment was higher at the same period. The high demand of labor force in 1991-1992 was caused by

construction sector of housing program declared by President Roh Tae Woo.

Later, the competitiveness, decrease caused by the wage increase influenced the labor expectation in two things: First, labor activities, especially with violence and legal violation that would decrease public support. Second, labor's group would give concession to the labor standard that they fought for.

### LEGAL INSTITUTION

The court was a political source, which was implemented through their decision in some important cases. The Supreme Court announced that the prohibition for the third side to interfere (in labor disputes) had been enacted in January 1990, and so had the government rejection toward a teacher union in 1992.

In having negotiation on labor's act, the court actions always based on the legal's interest and it seemed that the public supported it. When the legal institution broke its support to the labor's demand, the public would spontaneously put their position in the labor's interest, and thus they strengthened the labor's bargaining position.

In certain cases, the rule made by the court in facing labors in illegal negotiation was badly needed to make the labors fulfill democracy procedure. Initially, they were objected with the term of illegal negotiation. KTUC said that between March 1988 until April 1992 there were 24,6% labors who were arrested based on Labor Dispute Adjustment Act - LDAA, 15% of them had something to do with a company act, 35,1% violence violation, 18,9% violation in court room and demonstration, 7,6% inhibited the officers' examination and 15% violation to security act. Sometimes, in guilty labors were also in jailed while the government was never taken into account.

In 1991, when the labors went strike as their protest to some of their leaders, the supreme court decided that those activities was not included as labor negotiation. Thus, it was regarded as legal violation and their activities impeded the company. This Supreme Court decision motivated the government to

put LDAA into effect and forced the labors to obey it.

The court sometimes also became the labors' side if they were involved with the only representative of labor union, and also the prohibition of strike right for government officers. In March 1993, the Act judicature found constitutional inconsistency in section 12 (2) which stated that LDAA prohibited the government officer to do mass action/activities. The Supreme Court also challenged to some legal action pressure done by the government. In April 1992, the Supreme Court legislated that remuneration must be paid when a strike happened, and it weakened the government policy on "no work no pay".

The court decision varied and did not take only one side. Sometimes the court might take sides on the employers or the government in some legal violation, and another occasion it took sides on the labor in the case of the sole labor union. This policy would motivate other sides to behave fairly.

### THE INTERNATIONAL PRESSURE

The international pressure functioned in other thing. The activity done by labor's group in more successful countries became the main references for the labor's group. In the industrial relations, the international standard that prevailed in International Labor Organization (ILO) got legitimacy, so any side that supported this standard would get public support.

Since 1993 the International Labor Organization (ILO) warned about the importance of Labor Act Reform that was in line with ILO standard and the principle of organization freedom. The labor act which was strongly criticized by ILO was about: a sole union, the involvement of the third side (in a labor dispute) and the prohibition to unite for government workers and teachers.

Those international pressures were stronger in 1996 when South Korea tried to join organization of Economic Cooperation and Development - OECD. This International institution required the changes of South Korean Labor Act in order to be appropriate with the international standard.

If the labors got public support, the employers

would lose it. If the labors decided to continue their activities by having public support in their side, the possibility of employers to survive was small or in other word the employers finally would compromise. The political learning theory showed that the labors and employers would have an agreement if the political learning had fulfilled a certain requirement for both sides. The problem that appeared was not about whether they would have an agreement in the future, but it was about how and how fast they could compromise.

#### RATIONAL ACTOR MODEL

The problem of a decision-making was about how the decision makers gathered the information, considered some possible actions and then choose based on the most potential preferences (Allison, 1971; Frohock, 1979). Previously, the rational actor model were established from a classical economy theory by which each actor was regarded capable to estimate all possibilities based on complete information, and then arrange the priority scale based on the most optimum ways in order to reach a certain goal.

Some decision-making theories were then developed by the following concepts: bounded rationality, satisfying, and incrementalism (March, 1978). These additional concepts thought that: since the perfect rational choices were complex while the available time and attention were limited, the decision makers (either individually or organizationally) usually could not reach an optimal solution of a case. They only got "satisfaction" based on a certain criterion.

Incrementalism explained that the decision maker tried to decrease uncertainty, the possibility of conflict and complexity by restricting the changes from time to time (Braybrook and Lindblom, 1963). The more uncertainty there was, the more perfect strategy was needed.

#### SOCIETAL CORPORATISM

The interest representative system in South Korea has moved from state corporatism to pluralism in the transition of democracy. Under the pluralistic repre-

sentative system, many interest groups that strengthen the civil society, hegemonic consolidation of the capitalistic class and labor developed both quantitative and qualitative records.

According to Katzenstein, societal corporatism (democratic corporatism) in managing the interest group has positive roles in creating political stability and economic flexibility as well (Katzenstein, 1985). This happens because the concepts protect the balance of the interest group and the economic classes from any conflicts and always find conflict solutions through interest groups representatives from all sectors of the society to the structure of the government decision-making (Schmitter in Pike and Strich, 1974). Different from the pluralism, societal corporatism stressed out that the state proactively forms and develops the interests intermediary system and responsible to its results.

According to Schmitter (in Pike and Strich, 1974:107), both pluralism and corporatism give some basic assumptions. Both of them realize, accept and try to handle the development of the structural difference and the various interests of the modern political society. But, both of them offer contradictive solutions.

So, societal corporatism is the combination of the pluralism with the state roles autonomously in politic. In short, the main characteristics of the societal corporatism are as follows: (1) the increasing quantity and quality of labor associations, (2) the existence of political organizations or parties that support labor sector's interest, (3) conducive social and cultural environment to manage conflicts, fuse, concessions and compromises, (4) labor-businessmen relationship as a strong organization with a collective vote right, and (5) government as mediator.

Since 1987, South Korean democratize the political, social, and economic matters. State corporatism as a means to handle interest conflict done by the previous regime became pluralism or societal corporatism. South Korea had done the social agreement twice. The first was through the President Commission on Industrial Relations Reform (PCIRR)

that was established in the era of Kim Young Sam's government. The second was the Tripartite Commission under Kim Dae Jung administration.

PCIRR did not result in significant things because of the pluralistic limitations to the state while the Tripartite Commission had positive roles in the process of economic structure adaptations. PCIRR was firstly established as a trial to the social agreement for the social consultancy of the South Korean people. Even Kim Young Sam government that was pro-capitalistic had made the social consultancy among the three parties difficult. The government's role to support the social agreement process was very weak.

On the other hand, Kim Dae Jung's government's attitude towards those pro-labors could support the labors' participation in decision-making process on the social agreement. When Kim Dae Jung's government actively involved itself in tripartite commission the interest intermediation situation was soon formed as expected in societal cooperatism (Lee and Lee,2000).

## CONCLUSION

Based on the above notions, temporary conclusion indicates that *1997 economic crisis has strengthened the democratic consolidation on government-business-labor relations in South Korea, since crisis introduced some political learnings to the government, business and labors to conform the procedures of democratic consolidation as their main way to survive from crisis.*

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