South Korea

the showdown

The Asian economies are in a state of collapse. South Korea has been particularly hard hit. ***Ravi Naidoo*** *looks at the lessons to be learnt from the South Korean experience.*

A visitor to South Korea today will not find many smiling faces. The New Year message to the South Korean people is clear: "The economic miracle is over." The forecast for 1998 is sky-rocketing unemployment, massive bankruptcies and closures, takeovers by American multinationals and an International Monetary Fund (IMF) structural adjustment package.

1998 will also be the moment of truth for the Korean Confederation of Trade Unions (KCTU). The trade union body is the only progressive obstacle to a full-blown, neo-liberal agenda.

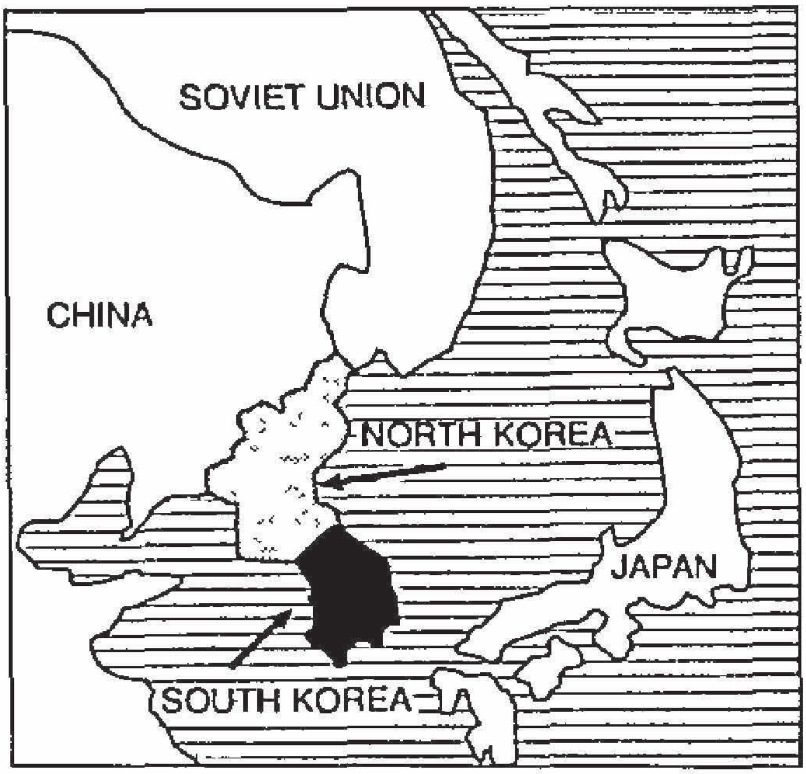
'Economic miracle'

South Korea has been punted as the leading edge of the 'Asian miracle'. It developed at record speed to become the eleventh largest economy in the world. Its average GDP is $10 000 per person - three times that of South Africa.

There has been much debate as to who should get the credit for this phenomenal growth. Right-wing policy researchers attached to the World Bank single out Korea's focus on exports and economic liberalisation. The left points to high levels of state intervention.

The reality is more complicated than the theory. The 'outcome' of Korean economic development thus far - rather than its 'success' - is due to four factors:

- The Korean economy is built around clusters of conglomerates, known as 'chaebols', which account for 40% of GDP. The government has given active support to the chaebols. It accessed foreign loans on their behalf and offered favourable interest rates to promote investment in strategic areas.
- The West saw South Korea as a buffer against the spread of communism in Asia. Since the Korean War (1950-1953), which resulted in the split between North and South Korea, western countries have poured in food aid, cheap loans and machinery to boost the South Korean economy. Goods manufactured in South Korea were given special access to western markets - which explains, more than anything else, the success of the 'export-led' strategy. This situation continued until the end of the Cold War a few years ago.
- Korea has suffered from a fundamental lack of political and economic democracy. From 1961 to 1993, the country was run by military



governments. These authoritarian regimes promoted the chaebols run by elites. Unions and worker rights were suppressed.

- Asia is home to 60% of the world's population. Its population is growing by 10% every year. American and European investors smelt an opportunity for profits. They invested heavily in the region. This allowed the chaebols to finance expansion and highly speculative new ventures. This investment glut led to 'speculative asset bubbles' (where the expectation of rising prices continually pushes up the selling price) that would eventually burst.

Collapse

The Korean private sector – corrupt and overfed – is bankrupt. The Korean economy is caught in a downward spiral

The speed with which this collapse occurred has taken many by surprise. The truth is that many of the chaebols have been bankrupt for some time. Chaebol foreign debt amounts to $200-billion, almost half of which is repayable in the next few months For the majority of chaebols, repayment is impossible.

As news of the impending bankruptcies broke, many foreign investors fled, causing the Korean currency and stock market to crash. The weaker currency only makes repayment of foreign debt (which has to be paid in US dollars) more difficult. This causes more investors to flee, creating a vicious cycle.

Eight of the largest 30 chaebols have filed for bankruptcy. In the past, they would have been able to borrow money from other chaebols, the banks they own, or the government. This is no longer possible. None of the chaebols has the resources to bail their fellows out. The banks are crippled by debt and the government is also short of funds.

The extensive cross-holdings and loan guarantees between the chaebols means that a crisis in one chaebol knocks the next. Even household names like Daewoo and Hyundai are in trouble.

The IMF has come forward with a $57-billion 'bail-out-package' to allow the repayment of foreign loans and to 'calm the markets'. Obviously, there are strings attached

Assistance or takeover?

The terms of this 'non-negotiable' package were drawn up in close consultation with the US. The package seems to have as much to do with increasing American access to Korean markets as it does to helping the country out of its crisis.

If the deal goes through, foreign companies will be able to completely own listed Korean companies. The IMF says this is necessary if the chaebols, and the economy as a whole, are to be restructured However,

American multinationals will be able to take over several powerful Korean companies, which were once their competitors, at bargain prices. When the 'restructured' companies start making profit again, they will be doing so for their new owners.

South Korea is not the only Asian economy in crisis. Malaysia, Indonesia, Hong Kong and Thailand have all experienced devastating slumps recently. The Japanese economy, which is the second largest in the world, is also showing signs of strain. In all of these countries, corporations are threatened by takeovers by US multinationals.

Did the US deliberately undermine the Asian economies? Probably not. After all, the crisis may well spread to western markets. It is clear, however, that, through the IMF, it is exploiting the crisis to the maximum.

Downsizing

The IMF package is also conditional on what are by now familiar measures - a reduction in government spending and downsizing the public sector.

The debt problem lies with the private sector, not the government. Any reduction in government spending will reduce demand in the economy and drive the conglomerates further to the wall.

Another IMF demand is employment reduction. Closures and bankruptcies have already pushed the official unemployment rate in Korea from 2% to 7%. The real figure is probably nearer 15%. There is no social security in South Korea. Government is considering introducing unemployment benefits, but only if the unions agree to the layoffs.

The government-aligned union federation (the Federation of Korean Trade Unions - KFTU), has joined a national forum to 'develop a new policy for industrial relations' - government-speak for retrenchments. The KCTU has refused to participate. It is demanding that the Korean elite be the first to pay the price of restructuring.

Labour's task

Of all the Asian countries, South Korea has the most advanced trade union movement. The KCTU will be the first target of the government's new agenda.

The KCTU's key demand is the restructuring of the chaebols. It maintains that they are a drain on national resources and that they are stifling the development of smaller companies.

At first glance, this may appear to be a contradictory strategy for a trade union federation to adopt. After all, unions find it harder to organise in small companies than in conglomerates.

The KCTU is, however, definitely barking up the right tree.

The chaebols have always had special access to government policy-making. Government policy will always promote their interests. If government is confronted with the choice between ending chaebol benefits or slashing the workforce, they will chose the latter.

The KCTU is determined that not only workers will pay for cleaning up the current economic mess. They are clearly in for a rough ride. The government will do everything in its power to undermine the federation to ensure a smooth implementation of the IMF plan. The best hope for the KCTU is that increasing employment insecurity boosts worker support for its position. Only time will tell.

Lessons

The neo-liberal analysis currently doing the rounds is that the 'non-market' measures (principally, state intervention) South Korea used to build its economy led to inefficiencies. This, in turn, led to corruption and, eventually, to collapse. The 'solution' is to allow the market to allocate resources.

This analysis fails to mention that Korea did liberalise and deregulate its economy. All this did was make existing problems worse.

In the early 1990s, the Korean government deregulated the financial sector and privatised the banks. The banks were bought by the chaebols, who promptly borrowed more money and went on a spending spree. Financial deregulation increased the level of foreign debt, and this led to the collapse of the economy.

The lessons to be learnt from recent Korean experience are that:

- ***Economic democracy and transparency are critical***
  Conservative analysts used the example of South Korea, in its heyday, to claim that authoritarian regimes are good for economic growth. In fact, the opposite is the case. The downfall of the Korean economy can be directly attributed to a lack of both political and economic democracy.
  The majority of Korean people had no idea of the size of corporate debt and what this money was being spent on. In a democratic system, resources would have been allocated according to social need and corruption and nepotism squeezed out.

The KCTU

The KCTU was formed in 1995. It brought together many of the democratic unions that developed after the Korean uprisings of 1987. The federation has maintained its militant position and has taken an active role in social transformation.

Although it can count a membership of only 550 000 – half that of the older KFTU – the KCTU has a strong base in the largest companies in strategic sectors such as automobile manufacture and shipbuilding. This gives it a power in excess of its size.

Overall union density is very low in South Korea. However, this needs to be seen in context. About half of the Korean workforce are 'irregular' (temporary) workers and about 70% are employed in small and medium-size firms. The high degree of flexibility already present in the economy exposes the true target of the IMF demand for 'more flexibility' – the progressive trade unions.

- ***The 'developmental state' is necessary, but insufficient***

As the Korean government consciously built up the private sector it was, in fact, reducing its power. The conglomerates became mobile and powerful in the international arena. Rather than the state driving the private sector, the private sector started to drive the state.

Over time, the government became so weak it had no ability to change the chaebol system, even to save the system itself. Can the 'developmental state' avoid this pitfall? One approach is to ensure that private capital is always kept in check, and not only by a powerful state. Other social formations, such as the union movement, must be given the space to shape economic policy and counter the influence of business.

- ***Speculative investment must be restricted***

Short-term speculation can undermine and destroy powerful economies. The Asian governments are now considering imposing restrictions on investors to protect what is left of their economies. It would have been better had they not allowed such speculative investment in the first place.

- ***Worker buy-outs are better than government bail-outs***

Many Asian governments, either through their national budgets or through the IMF, will be paying out billions of dollars to repair their private sectors. Why should bankrupt companies, which generally oppose 'big government', be bailed out by taxpayers? If a company needs to be rescued to protect jobs, it would be better to facilitate worker buy-outs of these companies. At least in this way, the supporters of the 'casino economy' will know the true cost of losing their chips. ★

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