

# Chapter 2

## Changes in the Political, Social and Economic Environment of Public Policy in South Korea After the 1980s

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### 2.1 Introduction

Any open system can survive only when it serves the need of the upper system, or its environment (Robertson and Choi 2010). Public policy is a way for government to respond to input from civil society, which forms the environment of the government. To put it another way, public policy decisions cannot be aptly understood from a closed system perspective; that is, from a perspective that focuses only on the internal structure and process of government. Instead, public policy can be better understood from an open system perspective that considers the policy environment as playing a major role. The environment, when appropriately understood, can explain much about why a policy is or is not adopted, implemented, and revised.

The purpose of this chapter is to provide an overview of policy environment changes in South Korea after the 1980s. We assume that the current public policy in South Korea can be better understood by analyzing the changes in the political, social, and economic environment of public policy. We take a historical perspective to analyze the institutional setting of the Korean state. To do so, we pay attention to two critical events in the contemporary history of the development of South Korea. One is the 6/29 declaration in 1987, which led to democratization of the country. The other is the financial crisis in 1997, which led to neo-liberal reforms all around

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the country. We argue that these two events left an imprinting effect on public policy, and changed the path of state development afterward. We contend that political, social, and economic changes during the period are all intertwined, drive key policy actors to a certain direction, and are in turn affected by actor responses.

Although we discuss a lot of political, social, and economic events around and after the two major events, our goal is not to provide a comprehensive perspective to understand those events in the form of political theory or ideology. Instead, our main purpose is to identify key events or indicators that demonstrate how the state and society have changed, thus providing the background knowledge on which to base a better understanding of the current policy issues in South Korea. It is noteworthy, however, that our general discussion benefits from the developmental state theory and the theory of the variety of capitalism (for details, see Evans 1995; Hall and Soskice 2001; Johnson 1982; Weiss 1998; Woo-Cumings 1999), which are in the tradition of historical institutionalism. Although we do not attempt to verify or falsify those models, they are used to frame the discussion of political, social, and economic changes and challenges.

We begin by discussing the policy environment during the Third to the Fifth Republic, which can be characterized as the developmental era of South Korea. Next we review the background and content of the 6/29 declaration and the financial crisis in 1997 respectively. We then analyze in more detail changes in the policy environment according to its political, social, and economic dimensions, and discuss how those changes in the policy environment affected key policy actors: presidents, legislature, and state bureaucracy. Finally, we conclude this chapter by summarizing the discussion and proposing some speculation on the future of the Korean state.

## **2.2 Overview of the Contemporary History of South Korea**

### ***2.2.1 Political Environment During the Developmental Era***

To understand the policy environment today, we need to rely on a historical view of the institutionalization of the political sector in South Korea. Before the key political turn of the 6/29 declaration in 1987, South Korea had experienced more than two decades of authoritarian regime since 1961. This period covers the time from the Third to the Fifth Republic when the Korean economy had grown rapidly but civil society had not fully grown into a democracy. The period was the heyday of the Korean developmental state or the East Asian “coordinated market economy” (Hall and Soskice 2001). Three key political situations can be highlighted.

First, the central government of the Korean state in this era institutionalized a typical developmental state. There are two key features of this state institutionalization: political elites that pursued the state development, and bureaucratic elites

that provided professional resources for economic growth in response to political elites. The Park Chung-hee administration focused on economic development by designing and implementing state-driven economic development plans, establishing modern capitalist markets, strategically supporting key corporations (which later grew into *chaebols*) to grow fast, and suppressing political and labor rights movements (Bedeski 1994; Heo and Roehrig 2010). The administration's goal was realized by competent, coherent, and compliant state bureaucracy (Johnson 1982).

Second, civil society had not emerged yet to exercise democratic control over the government. Although the civil society experienced major success toward democracy through the 4/19 Movement in 1960, it still remained relatively weak and under-organized compared to the state, which was typical among newly independent countries (Alavi 1979). Nevertheless, this era of economic development and authoritarian regime is not characterized simply by a ruling government versus a ruled civil society. As we analyze in detail in the next sections, this era of authoritarian regime also embedded potential for democracy, including the rise of the middle class, a growing number of civic organizations, organization of labor and student movements, and increased autonomy of large firms.

Finally, it is worth mentioning briefly the effect of the cold war and economic boom in the Western countries during the second half of the 20th century, which provided the Korean state with a favorable global market (Woo-Cumings 1999). Along with the existence of political elites that pursued the development of a strong state and the existence of competent and coherent state bureaucracy, the generous global market condition enriched the soil for South Korea to develop and grow quickly.

### **2.2.2 6/29 Declaration and Revision of Constitution: A Critical Juncture for Democratization**

The first critical juncture that came with the end of the era of rapid economic development driven and managed by the authoritarian regime happened in 1987, when the 6/29 declaration was announced by Roh Tae-woo under the Chun Doo-hwan administration. The 6/29 declaration and the following constitutional revision made a significant imprinting effect on the institutionalization of political conditions afterward.

The 6/29 declaration was not an abrupt event initiated by political elite whim, but was their reluctant response to pressure from civil society. The increasing demand for more democracy that includes the 5/18 democratic uprising at Gwangju in 1980 and following civic movements against the authoritarian government hit a peak when the 6/10 civic uprising occurred in June 1987. The 6/29 declaration was a response by the authoritarian regime to propose a wide range of democratic reforms.

The 6/29 declaration initiated by Roh Tae-woo, then the delegate of the ruling party, included several significant reforms.<sup>1</sup> First, the direct presidential election system was proposed: “The constitution should be expeditiously amended, ..., to adopt a direct presidential system, and presidential elections should be held under a new constitution to realize a peaceful change of government in February 1988.” In addition, the declaration emphasized fairness and justness of election management.<sup>2</sup> The following constitution also reduced the length of the presidential term from seven to five years with no consecutive terms of service. However, this political achievement stemmed from narrow political negotiation among the ruling party and the opponent parties, and has therefore been criticized as not reflecting the diverse demands of citizens. Scholars have pointed out that excessive focus on the issue of the presidential term led to neglect of the other democratization agendas (Choi 2002).

Second, the declaration included the restoration of political prisoners’ rights for the sake of “national reconciliation and unity.” Prisoners included Kim Dae-jung, but excluded some “who have committed treason and have shaken the national foundations.” The declaration states: “Mr. Kim Dae-jung should be amnestied and his civil rights restored. ... At the same time, all those who are being detained in connection with the political situation should also be set free.” This clause also stated that “antagonisms and confrontations must be resolutely eradicated,” which is impressive as it indicated that the major issues at that moment did not simply involve institutional settings but also people’s perceptions and social integration.

Third, the declaration emphasized the enhancement of basic human rights: “Human dignity must be respected even more greatly and the basic rights of citizens should be promoted and protected to the maximum.” Furthermore, freedom of the press was to be restored by abolishing the Basic Press Act. The declaration also particularly mentioned the autonomy of local government and higher education institutions. Finally, the declaration called for a “clean and honest society” and the eradication of crimes against life and property.

The 6/29 declaration was followed by a major revision of the Constitution. The new Constitution was a significant turn from the authoritarian regime to a democratic one by strengthening the authority of the legislature and the judicial branch, constraining the power of the president, recovering local government autonomy, and ensuring basic human rights. After the 6/29 declaration, South Korea experienced two peaceful turnovers of political power in 1998 and 2008, and civil rights have been expanded to an unprecedented level.

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<sup>1</sup>The English quotes from the 6/29 declaration in this chapter are based on Bedeski’s work (1994).

<sup>2</sup>“... it is necessary also to revise the Presidential Election Law so that freedom of candidacy and fair competition are guaranteed ... A revised election law should ensure maximum fairness and justness in election management, from the campaigns to the casting, opening and counting of ballots.”

### 2.2.3 *Financial Crisis and Kim Dae-Jung Administration Reforms: Another Critical Juncture*

The second critical juncture after the authoritarian developmental state regime was the financial crisis in 1997. The financial crisis was not a one-time event, but rather an ongoing ordeal not visible to the public until the Kim Young-sam administration announced that South Korea would receive International Monetary Fund (IMF) bail-out money on November 21, 1997. The dawn of the crisis can be found in the change of foreign exchange rates and foreign exchange reserves. Figure 2.1 shows the worsening ratio between short-term foreign debt and foreign reserves until 1997. This broken balance between foreign debt and reserve was reflected in the foreign exchange rate. Figure 2.2 shows how rapidly the foreign exchange rate soared around November 1997.

On December 3, 1997, South Korea signed the MOU with the IMF for a bail-out to prevent the country from moratorium. The government received a conditional loan from the IMF of about 20 billion dollars. The per capita GDP plummeted from 12,000 dollars in 1996 to 7,300 dollars right after the crisis. The economic growth rate decreased from 4.7 to -6.9%, and the national credit rating (S&P index) declined from AA- to B+ (10 grades lower). In 1998, about 22 thousand firms went bankrupt, and the unemployment rate soared up to 7%.<sup>3</sup> In return for the conditional loan, South Korea agreed to implement neo-liberal reforms and austerity measures including high interest rates, high foreign exchange rates, and a reduced public budget. Comprehensive structural reforms of the domestic market were also implemented. Eventually, this was a huge departure from the old economic regime. After the crisis, the real GDP growth rate has never recovered as shown in Fig. 2.3.

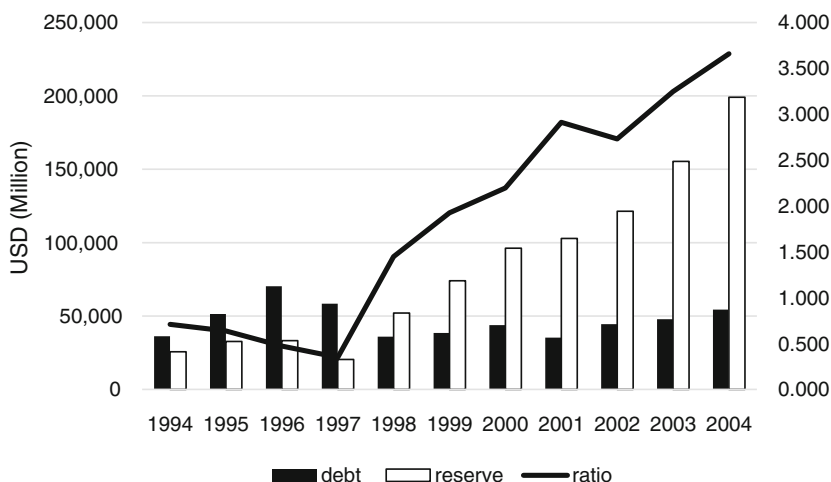
With its inauguration in February 1998, the Kim Dae-jung administration announced four major reforms to overcome the financial crisis: financial market, corporate governance, labor market, and public sector. The reforms were partly a response to the IMF's conditional loan, but they were also what the former administrations attempted to accomplish (Ji 2011; Lim and Jang 2006). In a nutshell, they aimed at the enhancement of competitiveness in the private and the public sectors.

The financial market reform focused on the M&A of banks, the raising of public funds, and the improvement of financial regulation. For example, major banks such as Kookmin Bank and Korea Housing and Commercial Bank were forced to merge to ensure competence. In this process, public funds up to 160 trillion KRW flowed into financial institutes, dropping the ratio of insolvent obligations from 13.6 to 4%.<sup>4</sup>

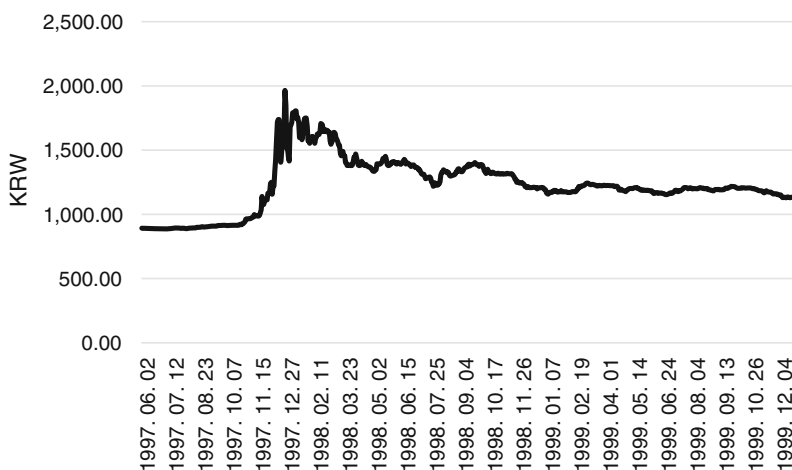
Along with the financial market reform, the corporate governance reform aimed at disbanding insolvent enterprises, restructuring *chaebol* ownership structures, and

<sup>3</sup><http://news.naver.com/main/read.nhn?mode=LSD&mid=sec&sid1=117&oid=078&aid=0000037944.2007.11.9>.

<sup>4</sup><http://www.polinews.co.kr/news/article.html?no=11330.2001.3.1>.



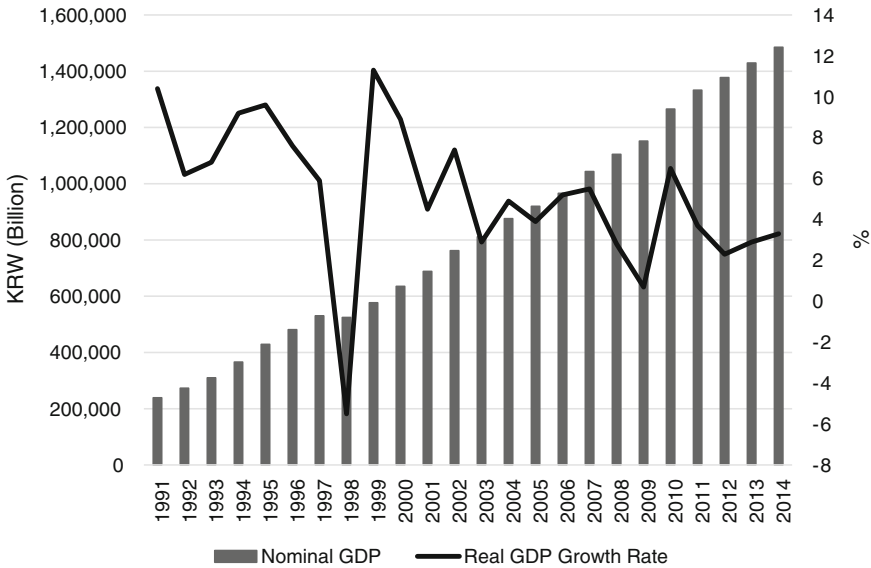
**Fig. 2.1** Ratio between short-term foreign debt and foreign reserves. *Source* Bank of Korea (<http://www.bok.or.kr>)



**Fig. 2.2** Foreign exchange rate: Korean Won/US Dollar. *Source* Statistics Korea (<http://kosis.kr>)

enhancing transparency in corporate management. In November 2000, 29 firms were liquidated. Major companies such as LG Semi-conductor and Daewoo were forced to engage more actively in M&A, combined financial sheets were enforced, and firms had to lower their debt ratio. Consequently, many of the M&A regulations were abolished, transparency of corporate accounting was enhanced, and firm performance was improved.

The labor market reform aimed to increase flexibility in the labor market along with improving labor conditions. The Korea Tripartite was established in January



**Fig. 2.3** Real GDP growth rate. *Source* Statistics Korea (<http://kosis.kr>)

1998 to discuss labor policy and build consensus among stakeholders, while the Korean Confederation of Trade Unions was legalized. Coverage of the Labor Standard Act, Minimum Wages Act, and labor insurance was expanded to enhance the protection of workers. At the same time, the employment adjustment and dispatch of workers system was enacted in 1998 to increase labor market flexibility.

Finally, the public sector reform focused on the state bureaucracy from the neo-liberal perspective to remove the privilege of career bureaucrats in their job security and decision-making power, and to improve efficiency of public administration by privatizing policy functions which had been under bureaucrat control. For example, in the public sector, new public management reforms such as agencification, marketization, performance appraisal and performance-based rewards as well as open rank recruitment have been adopted.

## 2.3 Changes in the Policy Environment

### 2.3.1 Political Change

#### 2.3.1.1 Legislative Power and Divided Government

Enhanced democracy and political freedom is the key political change after the historical juncture of the 6/29 declaration. This political change implies that politics, not national planning, became central in setting state goals in terms of both

**Table 2.1** The majority party in the legislature

Year	General election	Majority party	Seats	Proportion (%)
1985–1988	12th	Democratic Justice Party	148	53.6
1988–1992	13th	Democratic Justice Party	125	41.8
1992–1996	14th	Democratic Liberal Party	149	49.8
1996–2000	15th	<i>New Korea Party</i>	139	46.5
2000–2004	16th	<i>Grand National Party</i>	133	48.7
2004–2008	17th	Uri Party	152	50.8
2008–2012	18th	Grand National Party	153	51.2
2012–2016	19th	Saenuri Party	152	50.7
2016–2020	20th	<i>Minjoo Party of Korea</i>	123	41

*Note* Italics indicate opponent party

*Source* Korean National Assembly (<http://www.assembly.go.kr>)

substance and process. The increased awareness of the importance of social welfare and equity after the 6/29 declaration illustrates a consequence of the change in that the demand for social welfare and equity had been suppressed during the developmental era. This is a significant deviation from the traditional policy direction, considering that South Korea had been a typical developmental state until then.

Another significant change in the policy environment is the strengthened and extended legislative power. First, tools for checks and balances of power were restored in the new Constitution, such as the authority of the National Assembly to investigate the administration every year as well as when necessary, and to ratify major domestic and foreign policies. Second, this constitutional revision was accompanied by a changing political landscape. A divided government became the norm rather than the exception; the legislature, including the local assemblies, has often been dominated by the opponent parties. As shown in Table 2.1, in many election terms the government has either been divided or the ruling party failed to occupy half of the seats in the National Assembly. Combined with the constitutional revision, this divided government setting significantly constrained presidential power and strengthened legislative power.

### 2.3.1.2 Crisis of Representative Democracy

Although the political changes have opened up opportunities for the legislature to take initiative in policy decision making, scholars lament the crisis of party politics and representative democracy in South Korea (Choi 2002; Kim 2014). The sources of the crisis are manifold. First, the level of trust in the legislature is the lowest among public institutions, which has triggered a vicious cycle of low performance and low trust in turn. Second, popular politics that resort directly to the public have increased. Democratization in South Korea, instead of depending on representative democracy, was partly achieved through anti-government movements led by two popular political celebrities, Kim Young-sam and Kim Dae-jung. Further, citizens



considered such ‘outside’ politicians as Roh Moo-hyun and Ahn Cheol Soo more reliable and honest than politicians within representative institutions. Outside politicians also responded eagerly to the public directly. Third, an increased number of elections and citizen swing votes made the legislative branch respond more sensitively to mass opinion. Frequent elections at the national and local level are by no means a problem in a democracy; however, in the absence of a decentralized party structure, every election is eventually managed and interpreted as a national, winner-take-all game, leaving little buffer for pluralistic politics. Finally, an increase in the desire for direct citizen participation in policy decision making has also affected the legitimacy of the legislature. There is a struggle in South Korean politics to find a balance between representative and participatory democracy.

2.3.2 Social Change

2.3.2.1 Rise of the Pluralistic Civil Society

Political democratization after 1987 was made possible by the rise of civil society during the developmental era, and pushed civil society to flourish even further. The establishment and collapse of the Fourth Republic is often understood as showing the eroded foundation of the authoritarian regime and the growth of civil society that was brought by the economic success of the very same regime (Choi 2002). The diversity of interests and values among civil society began to find institutional venues through which to be expressed and realized. For example, Fig. 2.4 shows an impressive increase in the number of labor unions and their membership during the late 1980s, a decrease during the 1990s, and a stabilization after the financial crisis.

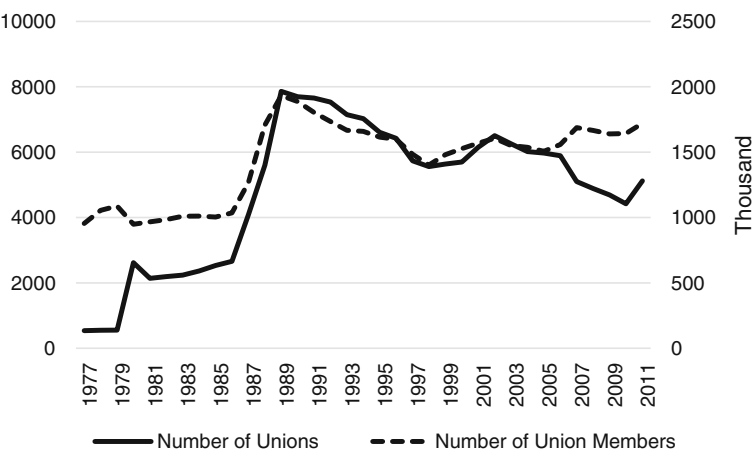


Fig. 2.4 Membership increase in labor unions. Source Statistics Korea (<http://kosis.kr>)

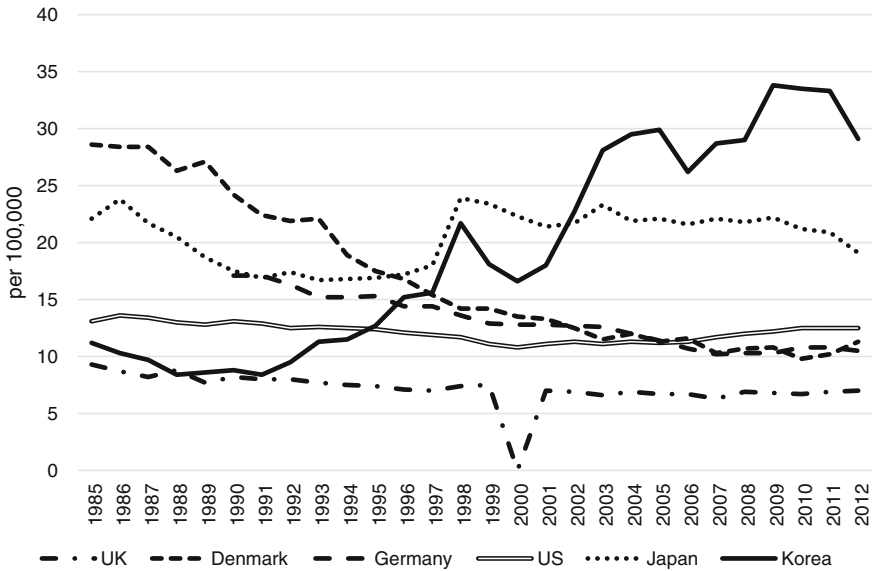
One of the major characteristics of the Korean developmental state was a nation-wide corporatism structure, with one state-authorized peak organization per sector. For example, in the education sector, only the Korean Federation of Teachers' Associations (KFTA) was authorized to represent the interests of the sector. Likewise, the Federation of Korean Trade Unions (FKTU) was the only authorized partner of the government in the area of labor policy (Jung 2014: 29). After the 6/29 declaration, however, there was an explosion of civic organizations including workers' organizations, farmers' organizations, and civil rights organizations. This increased diversity also changed the state corporatism structure (Jung 2014: 29). In the education sector, the Korean Teachers and Education Workers Union was established in 1989, co-existing with the KFTA. In the labor sector, the Korean Confederation of Trade Unions was established in 1995, which had already been seeded in 1987, competing with the existing FKTU. These multiple representations of peak organizations in various sectors made the policy environment even more complex.

### 2.3.2.2 Increased Social Instability

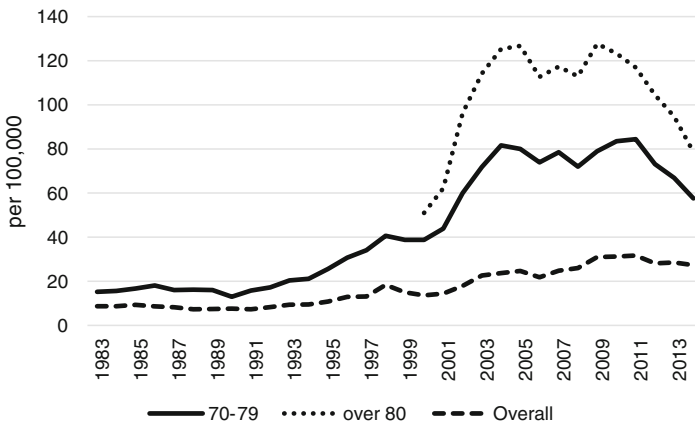
The increase in labor market flexibility and the number of non-regular workers, which we will discuss later in this section, imply a gradual collapse of the middle class which should theoretically provide a high level of support for democracy. Although there is still debate on the current status of the middle class in South Korea, there are signs that the middle class is in serious danger in terms of numbers and prospects. In the 1980s, 60–80% of citizens responded that they belonged to the middle class (Kang et al. 2014). In 2006, according to Statistics Korea, only 53% of the respondents claimed to belong to the middle class. In 2012, according to the Hyundai Research Institute, only 46% of respondents thought they belonged to the middle class. This is a noticeable warning to Korean society, as the collapse of the middle class often leads to the polarization of society and a crisis of democracy.

As firms have reduced organization size and employment, many people have accepted decreased salaries or lost their jobs in the absence of a social safety net provided by the government. Some social symptoms are by no means positive. For example, the suicide rate can be an indicator of the level of social health. Figure 2.5 shows the relatively high and increasing suicide rate in South Korea compared to other OECD countries. It shows that the suicide rate in South Korea has been soaring since the 2000s. The suicide rate among the older generation who are socially and economically isolated is even higher: during the late 2000s, the suicide rates for people in their 70s and 80s were around 80 and 120 per 100,000 citizens, respectively (Fig. 2.6).

Finally, the most fundamental change that would define the social policy environment is the problem of an aging society. The population in South Korea is aging so fast that the increase in household income cannot protect the old generation from falling into financial risk. In addition, the birth rate fell below 2.0 in the 1990s and



**Fig. 2.5** Suicide rate: OECD countries and South Korea. *Source* OECD Health Data (<http://data.oecd.org>)



**Fig. 2.6** Suicide rate in South Korea by age. *Source* Statistics Korea (<http://kosis.kr>)

has remained around 1.2 since the 2000s (Statistics Korea). With insufficient social safety and low quality of life, it is not likely that the birth rate will recover to a sustainable level.

Overall, these symptoms demonstrate significant social changes in the policy environment in South Korea. The collapse of the middle class and the polarization of the distribution of economic opportunities across society could inhibit social

consensus building and policy decision making. Korean society seems to suffer from a low level of psychological safety, life satisfaction, and social trust, all of which could create major policy challenges in the near future.

### **2.3.3 *Economic Change***

#### **2.3.3.1 Globalization and Global Standards**

Although scholars usually identify South Korea as a developmental state or typify its production regime as a coordinated market economy based on authoritarian political structure (Evans 1995; Hall and Soskice 2001; Kim 2014; Soskice 1999), it is interesting that the administrations have long been trying to transform its production regime to look more like a free market economy. Even before the financial crisis, the Korean economy had been incrementally exposed to the global economy in the process of globalization. The establishment of the World Trade Organization in 1995 constrained the available government policy tools. The Uruguay Round (1986–1994) marked the end of the favorable global trade environment, which had been one of the key conditions for the Korean developmental state to succeed. Admission to the Organization for Economic Co-operation and Development (OECD) in 1996 was another significant change that further limited the policy leverage useful for the government to control the financial market and domestic industry. South Korea entered a new era with different environmental challenges. Scholars often argue that one of the major causes of the Korean financial crisis is that the financial market became open to global hedge funds that make the national financial market unstable in the short term (Lim and Jang 2006).

The reforms pushed by the Kim Dae-jung administration after the financial crisis were intended to contribute to meeting the neo-liberal requirements of global creditors including the IMF. Accordingly, actors in the private sector in South Korea were required to accept global standards.<sup>5</sup> For example, firms had to apply the global accounting system and pursue ISO certification to compete in the global market.

#### **2.3.3.2 Labor Market Flexibility**

The reforms of the Kim Dae-jung administration focused on the renewal of the national economic system through setting global standards in the financial market, corporate governance, the labor market, and the public sector to achieve global

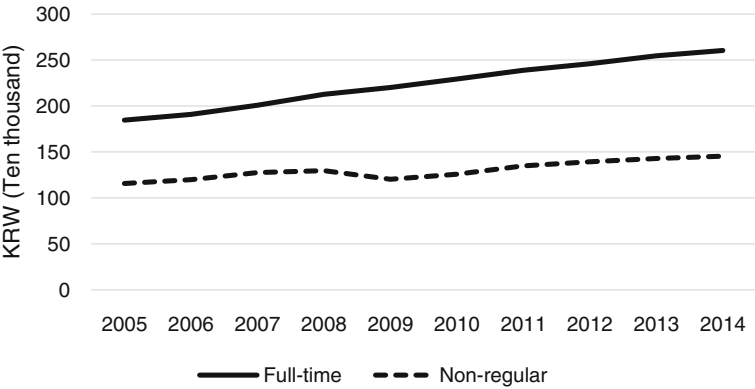
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<sup>5</sup>It should be noted that the financial crisis not only drove economic globalization but also social globalization. As Rosendorf (2000) claimed that globalization is ultimately a social and cultural phenomenon, globalization was a process of global standardization and isomorphism.

**Table 2.2** Gap in the length of service between full-time and non-regular workers in 2014

	Average	Shorter than 1 year (%)	1–3 years (%)	Longer than 3 years (%)	Total (%)
Total	5 years 7 months	32.3	21.5	46.1	100
Full-time	7 years 1 month	21.6	21.7	56.7	100
Non-regular	2 years 6 months	54.8	21.1	24.1	100

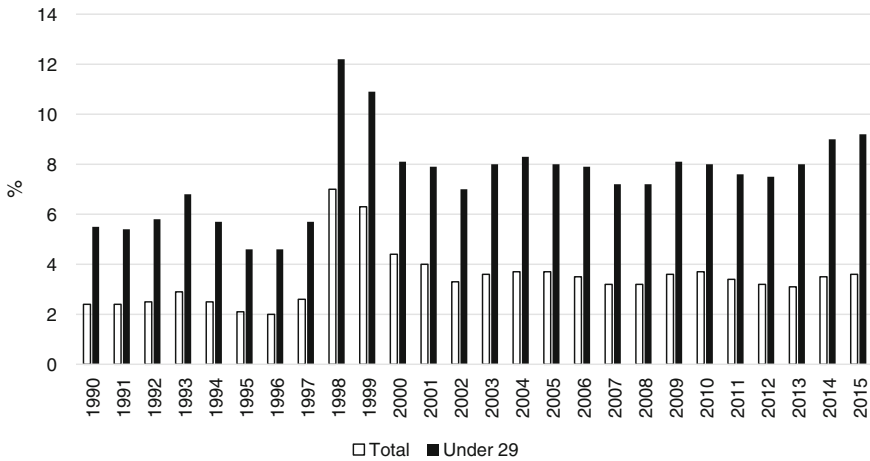
Source Statistics Korea (<http://kosis.kr>)



**Fig. 2.7** Monthly wage gap between full-time and non-regular workers. Source Statistics Korea (<http://kosis.kr>)

competitiveness. In the global market in the absence of protective trade policies, labor productivity was the key to maintaining competitiveness. To compensate for low labor productivity, firms increased labor intensity on the one hand and the government increased the flexibility of labor contracts on the other hand. According to the Statistics Korea, the ratio of non-regular workers went up during the early 2000s, and remained stable at around 30–40%, while the average ratio of non-regular workers across OECD countries was 11.4% in 2015.<sup>6</sup> Table 2.2 demonstrates the gap between full-time and non-regular workers in their length of service. While the average length of service of full-time workers was 7 years and 1 month in 2014, that of non-regular workers was only 2 years and 6 months. While 56.7% of full-time workers remained in the same job for more than 3 years, 54.8% of non-regular workers stayed in the same job for less than 1 year. Continuous labor market reforms and increased labor market flexibility resulted in an increased wage gap between full-time and non-regular workers. In 2005 the average wage of non-regular workers was about 63% of that of full-time workers; in 2014, the ratio dropped to 56% (Fig. 2.7).

<sup>6</sup>[http://stats.oecd.org/Index.aspx?DataSetCode=TEMP\\_I](http://stats.oecd.org/Index.aspx?DataSetCode=TEMP_I).



**Fig. 2.8** Unemployment rate: total and under the age of 29. *Source* Statistics Korea (<http://kosis.kr>)

The increase in labor market flexibility, when combined with low economic performance, negatively affected the quality of employment. Neither the number of unemployed people nor the unemployment rate increased much after the financial crisis. What is remarkable is the difference between the total unemployment rate and that of the younger generation as shown in Fig. 2.8. The unemployment rate for those under the age of 29 has at times been more than twice the total unemployment rate. Low economic performance along with labor market flexibility seems to have affected the younger generation more severely.

Overall, in terms of economic changes, the Korean state was no longer able to design and implement state-driven economic policies as the national economy became globally and substantively open and complex. Bureaucratic or developmental planning yielded its position as the primary governance mechanism to the market mechanism. At the same time, the state failed to provide a sufficient social safety net to protect workers and citizens at risk. The Korean state is still in transition in terms of its production regime, but the transition does not seem to have resulted in improved performance.

## 2.4 Challenges to Key Policy Actors

Changes in the organizational environment mean challenges to the organizations dwelling in the environment. The political, social, and economic changes discussed above ask for adaptive responses from public institutions including the president (and the presidential office), legislature, and state bureaucracy. At the same time, in turn, these actors also contribute to the changes of their policy environment, as we saw in such a political event as the 6/29 declaration.

In this section we analyze challenges that were brought by the changes in the policy environment to key policy actors: presidents, legislature, and state bureaucracy. Particularly, we focus on the institutional disparity caused by the two major events of the 6/29 declaration and the financial crisis, and on the mutual influence among presidents, legislature, and state bureaucracy driven by their respective responses to the changing environment.

### 2.4.1 *The Presidency*

To discuss challenges that were brought by the changes in the policy environment to presidents, it is first necessary to understand how the political context of the policy environment weaved the state institutions around the presidency. Scholars characterize the institutional arrangement of the period that endowed presidents with dominant power as a so-called imperial presidency.<sup>7</sup> We can summarize the conditions that led to the imperial presidency in South Korea as follows.

First, the weak legislative branch was the key. Under the representative democracy system, the president shares political legitimacy with the legislature. The imperial presidency in South Korea was possible when the legislative branch failed to assume political legitimacy and the political parties were captured by the presidents' agenda.<sup>8</sup> Second, the political ideology that emphasized national security and economic development justified the concentration of power and government-driven rather than citizen-driven policy. Third, the political culture has been based on patriarchal authority and collectivism, in which the culturally acceptable alternative to reducing coordination costs has been centralized public administration and ultimate coordination by the president. The authoritarian presidency, perceived as reducing coordination costs, ensured a certain degree of political legitimacy. Finally, the long-term seizure of power by one person solidified all these conditions. In the absence of competing elites and their periodical change, democratic control was simply impossible (Schumpeter 1943).

These institutional conditions that supported the imperial presidency, however, have been gradually eroded for the last thirty years. The condition of a weak legislative branch has changed enormously. Scholars often highlight the power shift from the president to the National Assembly (Choi 2002; Kim 2014). As we have seen in Table 2.1, in many legislative terms after the 6/29 declaration, presidents suffered from divided governments, which made it difficult to pass bills they initiated. Even under the condition of a unified government, the president had to face

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<sup>7</sup>The origin of the term imperial presidency is not clear (Choi 2002). At the least, we need to distinguish its meaning when the term is used in the United States and South Korea. In the former, it usually refers to the president's exclusive power with regard to foreign policy. In the latter, it usually refers to the president's unconstrained power in both domestic and foreign affairs (Choi 2002), mainly emphasizing the president's control over the legislature and the court.

<sup>8</sup>Until the 2000s, the presidents were also the chief of the ruling party.

stronger political voices from the opponent parties and weaker political support from the ruling party.<sup>9</sup> Moreover, since the single-term system with direct election was adopted after the 6/29 declaration, every president has become a political lame duck at the end of the term. The policy initiatives, especially reform agendas, were not implemented effectively as the presidential term approached the fourth or the final year. Long-term seizure of power no longer exists as an institutional condition. As a result, although the president is still the most powerful actor in the state, the status has changed from monopolistic decision maker to one of the powerful actors in the policy process.

The social changes discussed above required a president to consider more political agendas than economic development; democracy, social equity, political freedom, and a smaller government were called for by civil society. The critical challenge for the president after the 6/29 declaration and the financial crisis is the increased demand to meet both goals. Basically, the coordinated market economy system or the developmental state was institutionally revised to a significant degree as a result of the 6/29 declaration and the Kim Dae-jung administration reforms, resulting in the state losing coordination capacity. However, the production regime did not change to a liberal one but rather to a hybrid form, the performance of which is not proven yet. Accordingly, trust in the president has remained lower than in the period of economic development. Traditional forms of mass media, which obtained autonomy from the government through the abolition of the Basic Press Act in 1987, were prone to criticizing the president and the government. The rise of new social media, which is usually used by civic movement groups, also negatively affects trust in the president.

### 2.4.2 *The Legislature*

When we turn our attention to the legislature, we already discussed the crisis of representative democracy that reflects a bipolarization of political ideology in society (Kim 2014). The neo-liberal reforms following the financial crisis in South Korea in 1997 were on a wider global stream, and it is not surprising that Korean society has experienced similar polarization like other developing countries under a financial crisis.<sup>10</sup> This social ideological polarization, combined with majority rule, resulted in political deadlock in the National Assembly. Although the institutional and legal authority of the legislature was expanded in the current Constitution, the

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<sup>9</sup>Revisions and delay of bills occurred frequently, as shown in the Labor Reform Act by the Kim Young-sam administration in 1996 and procrastinated reforms during the Kim Dae-jung administration due to *chaebol* resistance.

<sup>10</sup>Even the United States has been warned against increasingly polarization (Pew Research Center 2014).



original function of the legislature, which is the authoritative distribution of values and coordination of social conflicts, does not work well enough to earn citizen trust.

First, the top-down manner of candidate nomination in a political party, in spite of long-time efforts to reform it, still works in practice. The top-down candidate nomination for general and local elections reflects the ongoing influence of the core members of the party such as the president and party leaders. The centralization of power within the parties results in bipolarized politics, which in turn reflects and strengthens bipolarized society and public opinion. A simplified diagnosis of social problems and solutions leaves no room for collaboration; in the long term, therefore, what we observe is “angry constituents.” The angry constituents put pressure on the parties to show exclusive loyalty to their own constituents by keeping their position firm rather than muddling through compromise, even by sacrificing the potential benefits both sides would receive if consensus could eventually be reached.

Another issue within the legislature is the revised articles of the National Assembly Act from 2012. The Act strictly limited the authority of the National Assembly Chairman to discretionally postulate a bill. To pass a bill “rapidly,” which practically means to pass a bill by the ruling party alone, 60% of the members of the National Assembly must agree. The concept of the filibuster was also introduced. Although these new articles were intended to enhance democracy by preventing the passage of bills by the ruling party without the agreement of the opponent parties, they are sometimes argued to break the principle of the majority rule and delay the legislation process.

### 2.4.3 *State Bureaucracy*

Scholars have pointed out diverse factors for the rapid development in the Korean economy during the 1970s and 1980s. These include strong presidential leadership, citizen desire for education which has led to high-quality labor supply, and favorable global trade environments (Jung 2014; Woo-Cumings 1999). State theorists particularly emphasized the role of state bureaucrats who are mostly career bureaucrats rather than politically appointed ones (Johnson 1982). State bureaucrats have played a pivotal role in the economic development of South Korea. Not only did they devote themselves to implementing economic policies decided by the presidents, but they were also endowed with decision power for major economic policies during the Park Chung-hee and Chun Doo-hwan administrations.

During the developmental era, state bureaucrats were among the best human capital in the country. In the absence of attractive jobs in the private sector, many of the best young students in South Korea pursued work in the public sector by passing the competitive national exam, resulting in the enhancement of overall state capability. This elite group typical in developmental states enjoyed the support and protection of the president. Being politically immune to the influence of the

National Assembly and interest groups, state bureaucrats in the pilot agencies planned and implemented state-driven economic growth policies under the presidents' strong leadership.

The "success story" of the Korean state bureaucracy began to crack after the 6/29 declaration and the financial crisis. As discussed above, democratization since the 6/29 declaration has weakened presidential power in the policy process. First of all, as the presidential term was set to five years with no consecutive terms of service, environmental uncertainty from a bureaucrat viewpoint has increased. Since the 6/29 declaration, South Korea has experienced two peaceful political turnovers, which accompanied comprehensive policy changes from the political right to left, and vice versa. Second, the state bureaucracy can no longer enjoy the support and protection of the president as it did before; it is now more exposed to and controlled by the legislature, strong interest groups, and mass media. The political checks by the legislature have been institutionalized; strong interest groups argue for their interests more actively by utilizing different avenues of political participation including petition, negotiation, and even collective action. As a result, the policy process has become much more complex; frequent symptoms of state bureaucrats losing their policy initiative include complication of related policies, delay of policy implementation, and decrease in policy consistency.

The financial crisis in 1997 pushed the challenges for the state bureaucracy even further. The key negative impact of the financial crisis on the state bureaucracy is the erosion of public trust in the ability and ethics of career bureaucrats. They were criticized as having failed to prevent the financial crisis and buckling under pressure from the IMF. The image of the state bureaucracy fell from able and efficient hero of national and economic development to the "villain of the piece" in terms of the financial crisis and following policy failures. It is not surprising that the Kim Dae-jung administration took a comprehensive approach to reforming the public sector, as we discussed in the previous section.

#### **2.4.4 Summary**

We can summarize the challenges for key policy actors as follows. First, as the political ideology has changed from national security and economic development to democracy, social equity, and welfare, the political culture that sustained the authoritarian system or the imperial presidency has changed from patriarchal authoritarianism and collectivism to political freedom of individuals and private interests. Second, after the 6/29 declaration, the expanded civic movement created interest group politics within Korean politics, resulting in a strengthened role played by the legislature. Third, the financial crisis significantly damaged citizen trust in the government, particularly the ability of the state bureaucracy.

As a result of these influences from outside, the relationship between the president and the legislature has changed. Presidents often become political lame ducks, combined with decreased support from the ruling party and increased political

resistance from the opponent parties, as well as the increased possibility of a divided government and a shorter presidential term. The legislature, however, does not seem to fully utilize this opportunity, partly due to its institutional limitations such as the top-down candidate nomination system of major political parties, the revised National Assembly Act, an insufficient level of expertise, and stronger influence from interest groups.

Finally, the state bureaucracy does not seem to aptly respond to the change in political ideology and culture. It needs to achieve a shift in organizational goals from economic development to social welfare and deregulation, which require different organizational capacity from planning and control. Political culture does not sustain the values of bureaucracy. The relationship to the legislature is on a path away from a developmental state toward a representative democracy. The relationship with the president is more complex than before; although the state bureaucracy still remains as an institutional servant of the president, it is possible that the ties could be weakened as the state bureaucracy is now more fragmented, hollowed out, and open to outside influence.

## 2.5 Conclusion

In this chapter, we described the environmental changes in public policy in South Korea after the 1980s. We focused on the political, social, and economic environment of public policy, and identified the 6/29 declaration in 1987 and the financial crisis in 1997 as two major critical junctures in the process of the institutionalization of the contemporary Korean state. While the former heavily influenced the political path to democracy, the latter influenced not only the economic system but also the whole social system of South Korea. The influence of the financial crisis still remains while politicians realize the shortcomings of the 1987 Constitution for further democracy and social integration.

The establishment of the 1987 Constitution strengthened basic civil rights and the power of the legislature while weakening the presidential power. The restoration of democracy in South Korea after 1987 was impressive as there were two periods of peaceful political turnover in 1998 and 2008 (Huntington 1993). Liberal democracy, social equity, and welfare were put at the center of political ideology. Interest group politics have been facilitated and reflected in the policy process as labor unions, farmer associations, and anti-government intellectuals advocated the interests of minority groups that did not equitably benefit from economic growth.

Although these changes in the policy environment contributed to the democratization of the policy decision-making process, they have also incurred confusion in public decision making. From the institutional disparities that occurred in the transition from a coordinated market economy to a hybrid one, Korean society is witnessing an increase in coordination costs that include a burst of the pursuit of private interest without social responsibility at the social level, and corruption as well as lack of accountability at the bureaucracy level. The state bureaucracy, which

has been a loyal servant of the president, is now increasingly fragmented and co-opted by strong interest groups, resulting in bureaucratic clientelism.

What direction will the Korean state take? Authoritarian solutions that are based on suppressive governmental authority are no longer politically viable. The authority and capacity of the government have not been proportionally increased to the degree of conflict among different interest groups. At the same time, however, a completely free market economy is also not viable; South Korea simply does not have historical experience in running that kind of social and economic system. The Korean state is in the middle of two ideal production regimes: coordinated and free market economy (Allen 2004; Soskice 1999). It is most plausible that the new state institutionalization could head for a variation of the coordinated market economy, but has not established its own regime that ensures institutional coherence. For the Korean state to complete its transition from an authoritarian to a democratic and liberal system, a balance between reforms of formal institutions and long-term changes in informal institutions such as social values, political ideology and culture, citizen attitudes, and ethics is warranted.

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