



# Compressed development, decompression, and diverging convergence in South Korea: which varieties of capitalism in contemporary Korea?

Keun Lee<sup>1,2</sup>  · Djun Kil Kim<sup>3</sup>

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## Abstract

South Korea has achieved compressed growth and convergence of its income level to that of typical advanced economies. This paper adopts a narrow definition of compressed development as a form of late development that lacks political democracy and open markets, and then defines decompression as the process of democratization and economic liberalization. This paper applies this framework of “compressed development, decompression, and diverging convergence” to analyze the dynamics of Korean capitalism since the 1980s after the death of the modernizer-dictator, President Park. First, the middle class emerged in Korea in the 1980s as a result of compressed growth since the 1960s and served as a key intermediary in linking economic growth to democratization. The process of political decompression, or democratization, was peaceful because it was demanded and led not by the working class but by the middle class. Second, an ill-managed first wave of economic decompression (liberalization) led to a financial crisis, and then, the post-crisis reforms (the second, more radical decompression) imposed by the IMF planted the institutional seeds for convergence with Anglo-American capitalism. Third, Korea is experiencing the end of the East Asian miracle, as evidenced by slowing growth and rising inequality, and is undergoing a multifaceted convergence toward different varieties of capitalism. In terms of life expectancy and crime rates, Korea joins Japan, Italy, and Spain in the “safe capitalism” group, while it is an extreme outlier in terms of its large gender wage gap and long working hours. In terms of unemployment and long-term employment rates, Korea is closer to the Anglo-American model, but closer to Europe in terms of the degree of active (or passive) labor market policies and legal protection against layoffs. Korea seems to be realizing “divergent convergence” as it remains distinct from any particular form of Western capitalism.

**Keywords** Varieties of capitalism · Korea · East Asian miracle · Convergence · Anglo-American capitalism

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**JEL classification** N15 · O19 · O40 · O53 · P16

## 1 Introduction

Beginning with Japan and then followed by the so-called Four Asian Tigers, the capitalist economies of East Asia achieved a remarkable performance characterized by high growth and low inequality, leading some to refer to this meteoric rise as the “East Asian miracle” (World Bank 1993). This miraculous performance has often been associated with the role of developmental states (Johnson 1982; Haggard 2018; Weiss and Thurbon 2021). Although South Korea (hereafter Korea), as one of the “Asian Tigers,” was once considered an exemplary country of the “East Asian miracle,” it now suffers from slow growth and rising inequality. In fact, Korea has exemplified a tumultuous journey, including the economic miracle that began in the 1960s under the authoritarian developmental states, democratization from 1987, the financial crisis of 1997 and subsequent reform and opening, and slowing economic growth and rising inequality in the 2010s and 2020s. In this sense, we are now facing the end of the capitalist model that accompanied the East Asian miracle in Korea.

Despite the turbulent nature of Korea’s contemporary political economy, the dominant concept characterizing Korea has been compressed modernity or “compressed development,” which focuses on the fact that the country achieved rapid socioeconomic development within a few decades—a feat that took other developed countries over a century (Whittaker et al. 2020). In the literature, compressed modernity has been conventionally defined as “economic, political, and social change that occurred in an extremely condensed manner in both time and space” (Chang 2022, p. 19). While such concepts are still useful, there is also a need for a new framework to reflect the contemporary situation of radical opening, slow growth, and increasing equality. In other words, it is now time to ask whether the period of compressed development is over with the waves of democratization, liberalization, and slowing growth. In sum, the literature does not sufficiently elucidate the nature of the socioeconomic changes that have taken place in Korean society since the 2000s. The characterization of recent decades of Korean history as a period of post-catch-up or post-compressed modernity is limited in its explanatory value, as it merely suggests the end of a paradigm without explaining what might follow.

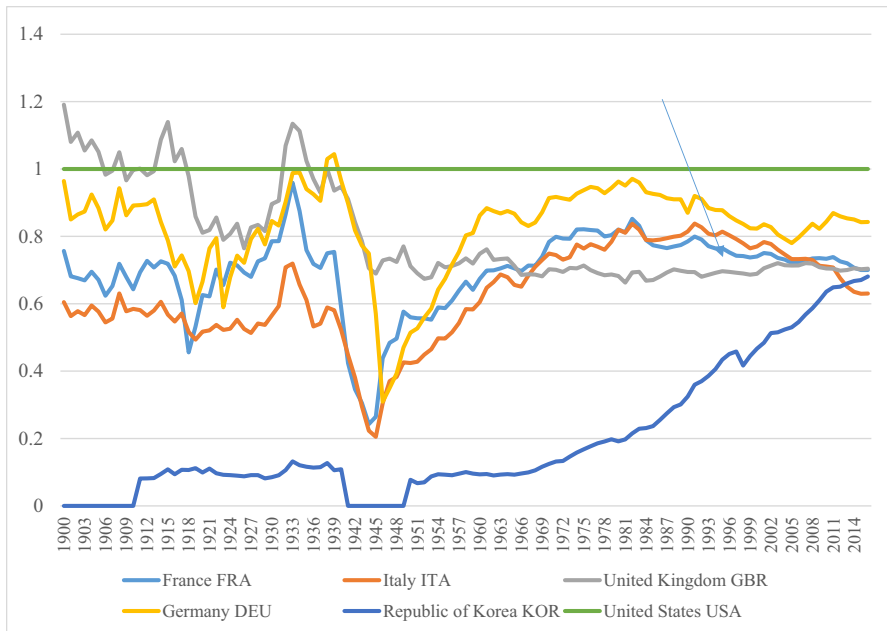
Thus, this paper adopts a narrow definition of compressed development as a form of late industrialization that lacks political democracy and open markets, and then defines decompression as the process of political democratization and economic liberalization. It then asks whether decompression is leading to Korea’s convergence with Western or Anglo-America capitalism or how, why, and to what extent Korea’s developmental trajectory has continued to diverge from that of advanced or mature economies in the West. This study will argue that while Korea is undergoing a multifaceted convergence toward different varieties of capitalism, Korea is realizing “divergent convergence” as it remains distinct from any particular form of Western capitalism. For instance, as will be discussed later, Korea joins Japan, Italy and Spain in the “safe capitalism” group in terms of life expectancy and crime rates, while Korea is closer to the Anglo-American model in terms of unemployment and long-term employment rates but is closer to Europe in terms of legal protection against layoffs.

While it is not clear which specific variety of capitalism it is converging, the East Asian miracle seems to be over now, as evidenced by the end of high growth and rising equality. Also, Korea has established itself as one variant of high-income, mature capitalism that displays characteristics resembling a variety of different developed capitalist economies. In sum, synthesizing existing studies and compiling new information and materials, this paper applies the framework of “compressed development, decompression, and divergent convergence” to analyze and interpret the dynamics of Korea’s political economy since the 1980s after the death of the modernizer-dictator, President Park Chung-hee. Our goal is to explain the evolutionary outcome of Korea’s distinctive political-economic development trajectory since the end of WWII, and its recent arrival upon a development stage best described as “diverging convergence.” Specifically, this paper aims to fill the following lacunas in the literature.

First, there is a need for a more explicit and focused analysis of the transition from compressed development to decompression, in particular, the linkage between economic achievement under compression and democratization (political decompression). This linkage is highly relevant to debates in the literature about whether political democracy—or “inclusive institutions,” following Acemoglu and Robinson (2012)—is a necessary pre-requisite of economic prosperity or whether economic growth can be achieved even under authoritarianism and serve as a catalyst for democratization (Lipset 1959). This paper explores the hypothesis that compressed economic development enabled the formation of a critical mass of middle-class Koreans who demanded a level of political freedom commensurate with their economic prosperity (Eichengreen et al. 2015, p. 27).

Second, this paper attempts to account for the recent changes involving the linkage between decompression and convergence. Gone are the days when Korea could boast of its fast growth rates. Rather, the country is now facing slowing growth and rising inequality, which has led some to speculate about whether Korea has left the model of East Asian capitalism and is now converging with the Anglo-American system (Lee and Shin 2021). In fact, Korea has dramatically transformed from a society known for high fertility, a high marriage rate, and a low divorce rate into one with the world’s lowest fertility rate, widespread singlehood, and a rising divorce rate—all trends that resemble other typical high-income societies (Chang 2022, p. 18). Therefore, an interdisciplinary approach is needed to analyze the interactions between socio-political and economic factors from the perspective of not only compressed development but also “compressed convergence.”

This paper is one of the series of country-based analyses published in this journal, following Chester (2020) on Australia and Srinivas (2023) on India. In what follows, Section 2 reviews the past performance of Korea and the literature to sort out the research gaps and discuss the need for a new framework to deal with new issues. Then, the following three sections discuss each of the three new issues. Section 3 focuses on the linkages from compressed growth to the unfolding of peaceful and radical democratization process. Section 4 focuses on the long-term consequences of the post-crisis reforms that ended the East Asian miracle but planted the seeds of convergence. Section 5 discusses the nature of evolving and contemporary capitalism in Korea, playing with the notion of diverging convergence. Section 6 concludes the paper with a summary and outlook.



**Fig. 1** Per capita income of Korea and Four European Economies (income in PPP dollars as % of USA). Sources: Maddison Project Database, version 2020. Bolt, Jutta and Jan Luiten van Zanden (2020), “Maddison style estimates of the evolution of the world economy”

## 2 Evolution of capitalism in Korea and the new departures

### 2.1 Evolution of capitalism in Korea

Korea underwent a process of compressed development that saw the country achieving rapid development within just a few decades—an accomplishment that took other developed countries over a century. In terms of GDP per capita based on purchasing power parity (PPP), which is a basic measure of living standards, Korea represents a paradigmatic example of quick economic catch-up. For comparison, Korean GDP per capita based on PPP was around 10% in the 1960s (Fig. 1). Since then, it rapidly increased to nearly 20% of US levels around 1980. Despite the political turbulence following Park’s death in 1979 and the rise of the democratization movement in the mid to late 1980s, the economy continued to catch up, reaching 40% of US levels by the mid-1990s.

In fact, in the late 1980s, chaebols took advantage of the favorable external conditions known as the “three lows” (low oil prices, low interest rates, and the low price of Korean currency) to continue their expansion by increasing R&D and moving into high value-added sectors. Thus, Korea’s per capita GDP in PPP terms, which was about 25% of the US level in the late 1980s, continued to climb, reaching 40% of the US level (regarded as the threshold for high-income status) in the mid-1990s and enabling the country to join the OECD. In sum, it was the relatively peaceful

process of democratization based on political compromise that did not disrupt economic growth, enabling Korea to join the ranks of the high-income countries.

The initial momentum for this political decompression originated in the 10 years that began with the 1987 democratization movement, which restored direct election for the presidency. This period also included the first wave of economic liberalization. The second and more decisive period of economic decompression began with the 1997 financial crisis that paved the way for a transition of political power from the liberal rightist to the liberal leftist government and the radical liberalization of the economy pursuant to IMF reforms which imposed some of the institutions of Anglo-American capitalism and thus set the country on a trajectory of convergence with Anglo-American capitalism. Further, in the 2000s, Korea has initiated and concluded a series of negotiations for the Free Trade Agreements with the US (2006–2012), India (2006–2010), the EU (2007–2015), and China (2012–2015). Thus, Korea has ended up being one of the most open economies in the world, whereas it used to be one of the most protected markets.

Although the 1997 Asian financial crisis dropped Korea's growth rate to  $-5\%$  rate in 1998, the country quickly recovered, and by 1998, it had returned to a catch-up trajectory. Korea's GDP per capita reached nearly 60% of the US level by the early 2010s following the global financial crisis of 2008 and 2009. This swift catch-up during these periods of crisis is comparable to the catch-up Korea achieved over the 15-year period from the early 1980s to the mid-1990s, during which time Korean GDP per capita grew from 20 to 40% of the US level. Korea's GDP per capita eventually reached 70.2% of the US level in 2020, putting Korea on par with Japan, the UK, and France (see Fig. 1) and demonstrating that Korea had achieved convergence with the income levels of other "rich countries."

However, Korean capitalism has still not yet fully converged to with Anglo-American capitalism. This is due to enduring historical legacies and path-dependencies associated with institutional inertia and vested interests. On the one hand, the driving forces for convergence appear to be ongoing financialization and the rise of shareholder capitalism, which are perceived as the causes of low investment and high inequality (Lee et al. 2020). On the other hand, the majority of the largest firms in Korea continue to be family-controlled chaebols, and family and kinship linkages remain an important factor in contemporary in Korea (Ha 2023). Although one might assume that state dominance over the financial system would have ended with the rise of liberalization and globalization, the influence of the government endures, albeit in a new form including industrial policy (Thurbon 2016; Thurbon and Weiss 2021; Kwon 2021; Kastelli et al. 2023).

Nowadays, maturing Korea faces social problems similar to those in Western societies, including youth drug addiction (Chang 2022). Then, we are facing a paradox of nominal convergence in Korea—that is, the existence of slowing growth, rising unemployment, and higher socio-economic inequality, alongside the persistence of underlying institutional frameworks, such as chaebol dominance, bank-government relations, labor market systems, and the role of the government in the economy. In terms of labor market outcomes, Korea is an extreme outlier with the longest working hours and the largest gender gap in wages. However, in terms of

social well-being indicators, such as life expectancy and crime rates, Korea is doing very well and similar to Italy, Spain, and Japan (see Section 4 later).

So, there is a need to go beyond the simple dichotomy of convergence versus divergence. The diversity and heterogeneity shown in various aspects of Korea imply that it is an oversimplification to state that Korean capitalism is converging with, or is consistently similar to, any particular type of capitalism or countries. In this sense, we can refer to this phenomenon as “diverging convergence,” which is to imply that while Korea is converging with some advanced capitalisms according to certain indicators, it also continues to remain distinct from other forms of advanced capitalism. In other words, Korea is undergoing a multi-faceted convergence toward different types of mature capitalism.

## 2.2 The literature and this study

The literature on contemporary Korea has tended to deal individually with distinct phases within the history of Korean capitalism, such as the decades of “miraculous” economic growth, periods of crisis, and the recent era of growth slowdown and rising inequality. Research by the first generation of Korean studies focused on socio-economic changes during the “miracle” economy of the pre-1997 period (Amsden 1989; Jones and Sakong 1980; Song 1990; Woo 1991; Chang 1994). The second-generation studies have focused on the financial crises of 1997 and post-crisis transformation (S Chang 2003), while Eichengreen, et al. (2015) and Shin (2014) examined the Korean economy during and after the global financial crisis of 2008 and 2009. The second generation also includes studies debating the perceived continuity or discontinuity of the Korean developmental state (Thurbon 2016; Kwon 2021) or the nature of the welfare state (Yang 2017).

This paper attempts to herald a third generation of Korean studies by focusing on the recent issue of the possible convergence (or divergence) of Korean capitalism with Anglo-American capitalism or other variety of mature Western capitalism (Lee and Shin 2021). This approach departs from that of the second generation, as it forgoes focusing on the causes of the crisis, instead choosing to explore the sources of convergence beginning with the neoliberal reforms imposed by the IMF. It also departs from the first generation by extending the discussion of compressed development to include the linkages between the economic achievements of this period and democratization which we consider political decompression. Whereas scholars of the second generation are critical of the economic performance before and during the crisis period, they do not address the questions of post-crisis transition and the possible convergence with Anglo-American capitalism.

So, this paper will re-interpret long-term evolution of capitalism in Korea using the framework of compressed development, decompression and diverging convergence, and focus on the following linkages in the evolution. First, compressed economic growth since the 1960s laid the groundwork for political decompression (democratization). Second, an ill-managed first wave of economic decompression

(liberalization) resulted in a financial crisis. Finally, post-crisis reforms (a second, more radical decompression) planted the seeds for convergence.

Exploring these linkages is important because the progression from decompression to convergence with Anglo-American capitalism is not an inevitable relationship. In the Korean context, economic decompression since the 1997 crisis was not a gradual internal process driven by political consensus among Koreans. Rather, Anglo-American economic institutions and financialization were implanted in Korea by an external force, the IMF, as part of post-crisis reforms. Contribution of the paper lies in unraveling the linkages that connect compression to decompression and then decompression to convergence and thereby specify the nature and varieties of capitalism (Soskice and Hall 2001) in contemporary Korea.

### 3 Linking compressed development with political decompression

This paper began by defining compressed development as economic growth without democracy, economic liberalization, or worker's rights. The watershed moment in Korea's transition toward democracy was June 1987, when mass demonstrations, referred to as the June Democratic Struggle, brought about the return of free and direct elections for the presidency, marking the restoration of procedural democracy in the post-Park era. However, the nature of the linkages between economic growth and political democracy is not well understood within the literature. In this context, one of the important contributions of this paper is to argue that the Korean middle class emerged as a result of rapid growth and served as a key intermediary in the relationship between economic growth and political democratization.

Indeed, compressed economic growth resulted in a large middle class employed in decent jobs (Koo 2022; Shin 2003). This phenomenon is reflected in both the perceptions of everyday Koreans and in objective data. First, poll data reveals that middle-class consciousness increased among the population, with 70% or more of Koreans regarding themselves as middle class in the late 1980s (Koo 2022, Ch. 1). Although there is some variation between survey findings, Koo (2022) has reported a continuous increase in the share of people who considered themselves to be middle class. Koo found that this ratio increased from 40% in the 1960s to about 60% in the 1970s, 60 to 70% in the 1980s, and finally 70 to 80% in the late 1980s and 1990s. According to Shin (1999), among the three components of the middle class, the share of the new middle class—meaning those employed as skilled or educated white-collar workers in urban areas—has driven this increase, with their share increasing from a mere 6.6% in 1960 to 14.2% in 1970 and 26.1% in 1990, followed by a slight decrease to 25.5% in 1995.

However, the question that follows from this is about the relationship between this new urban middle class and democratization, which is less explored in the literature, including in the work of Koo (2022). A survey shows that the new middle class maintained strongly negative impression of the military regimes (Teichman 2016, p. 148). Then, Shin (2003) shows that the Korean middle class's critical attitude toward the authoritarian regime and embrace of democratic values was due to their university education and student movement experiences on campuses.

Indeed, during the time that the authoritarian regime was violently suppressing anti-government organizing, the university emerged as an important space where political speech and actions critical of the government were somewhat tolerated. As the new middle class became increasingly confident of its economic power and motivated by democratic values, they came out to challenge the military regime.

Actually, it was the middle class—not radical organized labor—that was the primary group of the pro-democracy demonstrations in the June 1987 Mass Resistance. In the Korean media, these middle-class protestors have been referred to as the so-called necktie brigade (Ahn 2010), as they were primarily white-collar office workers. The middle-class composition of the pro-democracy demonstrations is also reflected in the leadership of the movement; several progressive groups were united to form the National Headquarters (for the demonstration), and the 11 selected leaders are Christian pastors, Buddhist monk, journalists, intellectuals including college professors, poets, lawyers, and congressmen. There was no labor leader among the leadership.

This middle-class nature of the demonstrations also explains its peaceful nature, as the movement announced a clear and simple objective that focused on procedural democracy without incorporating leftist demands. Furthermore, as South Koreans became increasingly confident in the country's economic well-being and security relative to North Korea, it became possible to challenge the military regime without provoking fear that bringing down the current government, as well as the resulting turmoil, might induce North Korea to contemplate a military attack. This argument for the linkage between economic growth and democracy is consistent with Lipset's (1959) assertion that economic growth reduces the political costs of overthrowing authoritarian regimes (Chen and Feng 1996).

Alarmed by the increasing scale of the demonstration, President Chun Doo-whan and his crony presidential candidate Roh Tae-woo accepted popular demands for constitutional reform. On June 29, Roh Tae-woo, the presidential candidate for the ruling party, declared the government's intention to amend the constitution to ensure direct presidential elections. However, the victory of ex-military general Roh Tae-woo in the 1987 presidential election allowed the clique of ex-military politicians to maintain its rule of the country. It took Korea another 5 years to elect civilian pro-democracy activist Kim Young-sam as president, which was made possible by an unlikely coalition between democracy fighter Kim Young-sam's and ex-military Roh Tae-woo's respective parties.

Although the first stage of political decompression was gradual and based on compromise (or the strange merge of the two parties), its later stages were rather radical. During his term, Kim Young-sam oversaw a decisive purge of the military elite who had run the country for nearly three decades. Subsequently, former pro-democracy activists emerged as new political elites, completely replacing ex-military politicians within the National Assembly and in important positions across Korean society.

A focused look at the composition of the National Assembly since the 1980s reveals that democratization in 1987 and the subsequent general election in 1988 were a turning point in Korean politics, as the composition of the political elite



shifted from a small cadre of military officials to pro-democracy leaders and student activists. During this period, National Assembly seats included about 250 members. Table 1 shows the composition of the National Assembly for each general election to illustrate the proportion of ex-military members and democracy activists regardless of party affiliation. The ex-military group includes those who graduated from any of the three military academies in Korea, which are the Korea Military Academy, the Korea Naval Academy, and the Korea Air Force Academy. Democracy activists include former student activists, civil rights activists and people active in NGOs, and those active in pro-democracy organizations, notably the Council for the Promotion of Democracy, which was a major pro-democracy organization formed in 1984 by the two opposition leaders Kim Young-sam and Kim Dae-jung.

As Table 1 demonstrates, the share of pro-democracy activists in the National Assembly doubled from 16 seats (5.6%) following the general election in 1981 to 32 seats (11.2%) in 1985. In the 1988 general election, the number of pro-democracy activists jumped to 51 members (16.7%), reflecting the dramatic shift in the composition of the Korean legislature following the first wave of democratization. This number further increased with 68 members (20%) in the 1992 general elections, meaning that the number of democracy activists was now double that of the 34 seats (10%) held by ex-military members. Ten years later, in the 2000 general election, the share of ex-military decreased to just nine seats (2.7%), whereas the share of democracy activists increased to a remarkable 79 seats (26.3%), many of whom belonged to Kim Young-sam's New Korea Party and other opposition parties.

Another important consequence of political decompression in Korea was the emergence of radical labor unionism and the Korea Democratic Labor Party following the pro-democracy protests of 1987. Indeed, following the ruling military-led party's declaration that it would reform the constitution to guarantee the right to political association, a wave of illegal strikes, often referred to as the "Great Labor Struggle," rocked the country from July to September of 1987, which was followed by formation of an increasing number of labor unions. Eventually, by the end of 1988, the total number of new labor unions had risen to 6164, a sharp increase from the 2675 that existed at the end of 1986. These new labor unions were united to form a national-level umbrella organization, called Confederation of Trade Union (KCTU), which finally, in January 2000, established its own party, the Democratic Labor Party (DLP), with the former KCTU chairman Kwon Young-Ghil as the first leader of the party. In the 2004 general election, two DLP candidates, including party head Kwon Young-ghil, were successfully elected to two constituency seats and eight proportional representation seats, with the party receiving 13% of the national vote. Thus, in 2004, the DLP won a total of 10 seats.

In sum, although the first stage of political decompression was a rather gradual process of compromise, its later stage had a very radical ending. First, Kim Young-sam's decisive purge of ex-military elites ended the three-decade rule by the military. Second, former democratic activists assumed new positions as political elites and replaced ex-military politicians in the National Assembly and other sectors of Korean society. Finally, the rise of radical labor unionism since late 1998 and the creation of their political party in 2000 marked the completion of this radical process of political decompression.

**Table 1** Ratio of ex-military politicians and the democracy activists as members of the National Assembly (NA): 1981–2004

	Total number of the NA seats	Ex-military	Pro-democracy activists			
			Total	Student activists	Political organizations	NGO people
11th NA (1981–1985)	286	34 (11.89%)	16 (5.59%)	4 (1.40%)	10 (3.50%)	2 (0.70%)
12th NA (1985–1988)	286	32 (11.19%)	32 (11.19%)	7 (2.45%)	25 (8.74%)	0 (0.00%)
13th NA (1988–1992)	306	32 (10.46%)	51 (16.67%)	13 (4.25%)	31 (10.13%)	7 (2.29%)
14th NA (1992–1996)	340	34 (10.00%)	68 (20.00%)	21 (6.18%)	36 (10.59%)	11 (3.24%)
15th NA (1996–2000)	328	17 (5.18%)	72 (21.95%)	17 (5.18%)	35 (10.67%)	20 (6.10%)
16th NA (2000–2004)	301	9 (2.66%)	79 (26.25%)	30 (9.97%)	27 (8.97%)	22 (7.30%)

Source: Calculations are manually done using the lists and profiles of the members of the National Assembly of the Republic of Korea available at: [https://www.rokps.or.kr/profile/profile\\_number.asp](https://www.rokps.or.kr/profile/profile_number.asp)

Percentage shares for each group in parentheses. Some members of the democracy group belong to multiple categories and, therefore, have been classified according to what sphere of political organizing they are most known for

## 4 Economic decompression, crisis, and the seeds of convergence

### 4.1 The 1997 financial crisis and the IMF-imposed reform

As the first civilian president of the post-Park era, pro-democracy activist Kim Young-sam contributed to consolidating Korea's democratic institutions by eradicating the power base of the military. Perhaps feeling confident from this political victory, President Kim aimed to make Korea a member of the OECD. However, entry into the OECD required that a country have a substantially open and free market economy. In the early to mid-1990s, however, conditions were not ideal for initiating financial liberalization, as the Korean economy was suffering from trade deficits associated with the country's overvalued currency and weak exports. Despite this, the Kim government initiated a series of financial liberalization to deregulate the flow of capital in and out of Korea, creating conditions that would lead to the 1997 financial crisis. The post-crisis reforms imposed by IMF brought Korea into a second, more radical wave of liberalization, or economic decompression.

Given that the origins of these crises have been sufficiently addressed in the literature, this paper focuses on the medium and long-term consequences of IMF-imposed reform in Korea. In particular, we ask to what extent this reform transformed the Korean economy, pushing it to become more similar to the Anglo-American economic system, while also addressing the costs and benefits of such changes.

The radical unfolding of economic liberalization (decompression) in Korea differs somewhat from that of democratization (political decompression). While the latter was driven primarily by domestic factors and players, the former was driven by the IMF, or the so-called Wall Street–Treasury–IMF complex (Wade and Veneroso 1998; Bhagwati 1998). Therefore, this post-crisis reform package was inevitably subject to external interests. Scholars continue to debate whether this bailout package was in Korea's best interests and, if not, then whose.

The IMF bailout plan possessed the power to impose specific loan conditions, the details of which were subject to negotiation between stakeholders. The conditions for the Korean IMF bailout were particularly comprehensive and included capital market liberalization, corporate governance reform, and labor market deregulation intended to increase flexibility. Capital market liberalization was based on four key elements: a shift from a managed to a free-floating exchange rates system, liberalization of capital mobility, removal of restrictions on the foreign ownership of stocks, and deregulation of bond markets to allow more foreign participation.

As a consequence of the reform package, the Korean economy began transitioning from an East Asian to an Anglo-American model of capitalism. The former is characterized by a bank-based financial system, relatively high savings, a high debt ratio, high investment, managed exchange rate system, limited capital account openness, and restricted foreign ownership, whereas the latter is characterized by a capital market-based financial system, low savings, low debt ratio, low investment ratio, a floating exchange rate system, full capital account openness, and unrestricted foreign ownership. Given that slower growth and high inequality are common characteristics of the Anglo-American system, it would not be surprising to see such

symptoms in Korea following the imposition of the Anglo-American model. Indeed, Korea did experience a growth slowdown beginning in the 2000s. There are two mechanisms that can be identified as the causes for this slowdown of growth.

First, shifting from a high-debt, high-investment economy to a low-debt, low-investment economy tends to have a direct impact on growth potential. During the pre-crisis era of the 1990s, Korean firms displayed extremely high debt-to-equity ratios as well as a tendency to engage in excessive investment, which have been criticized as the underlying factors of the 1997 crisis. Post-crisis reforms, meanwhile, required that Korean firms reduce their debt-to-equity ratios to below 200%—a demand that firms soon realized through restructuring. However, this also meant less investment and, consequently, less growth (Wade and Veneroso 1998).

Second, IMF reforms stipulated that the Korean corporate sector, in particular chaebols, be made to follow the rules and norms of shareholder capitalism, a core component of the Anglo-American system. These changes in business practices accompanied the rise of foreign ownership in corporate Korea. As noted above, the share of foreign ownership in the stocks of listed Korean firms rose to over 40% by 2003.<sup>1</sup> Interestingly, this rise in foreign ownership appeared to be negatively associated with the ratio of gross domestic investment to GDP. An econometric analysis by Kim and Cho (2008) using firm-level data proved this assumption to be true, verifying that listed firms with high ratios of foreign-owned equity tended to display low investment. The authors suggested that these firms were subject to demands by shareholders to increase dividends.

Although Korea was previously seen as a country where corporations paid low dividends, this perception has changed, with more firms adopting higher dividend policies, including large chaebols such as Samsung. This trend can be comparable to global trends by referencing data from the OECD National Account, which shows the increasing trends of the ratio of net dividend payment to net value-added in non-financial sectors in Korea (Shin and Lee 2019). Indeed, this ratio has increased rapidly in Korea, from approximately 6% in 2000 to 11% in 2015, getting close to the ratios in the United States.

This tendency of paying more dividends can also be interpreted as a consequence of financialization. That is, the Korean stock market is increasingly coming to resemble those of the United States and the United Kingdom, as it is functioning less as a source of additional funding for listed companies and more as a channel of value extraction in the form of stock repurchases and dividends (Lazonick and Shin 2019). This tendency of value extraction can be confirmed by looking at the data on the funds flowing in and out of the listed firms. Up until 2002, listed firms in Korea enjoyed a net positive *inflow* of money with more funds flowing in from issuing new stocks than the amount they paid as dividends or stock repurchase. However, since 2003, there has been a net *outflow* to markets as firms pay higher dividends and use their own profits to purchase their own (treasury) stocks to increase prices and, thereby, further enrich shareholders. In fact, Korea at one time had imposed some

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<sup>1</sup> Information from the site of the Korea Stock Exchange (<http://krx.co.kr/>).

restrictions on the purchase and burning of treasury stocks; however, such regulation was relaxed in October 2000.<sup>2</sup>

One consequence of the rise of shareholder capitalism—which values distributing profits as dividends to shareholders over funding reinvestment—appears to be sluggish investment, which, in turn, results in slowing economic growth rates.<sup>3</sup> The gross domestic investment to GDP ratio was above 35% during the pre-crisis period in the 1990s but declined to 30% in the 2000s. It continued declining in the 2010s. The abovementioned symptoms associated with financialization are some of the many causes of increasing income inequality. A study (Shin and Lee 2019) demonstrated that in OECD countries (including Korea), the increased shares claimed by the stockholders in profits or in financial resources of non-financial sectors led to rising inequality in terms of the share of wealth held by the top 10%.

In the meantime, the IMF also demanded Korea to strengthen the capacity of its newly reformed employment insurance system to help stabilize recently terminated workers while they pushed for further initiatives to improve labor market flexibility. The urgent need to restructure industry led the government to legalize redundancy layoffs and the hiring of temporary, at-will workers. In less than 12 months, the number of the unemployed increased by nearly 1.3 million, and the number of employed workers dropped by roughly 2 million (Lee et al. 2008). Notably, the majority of the pain that resulted from labor market reforms and increased flexibility was borne not by workers at large firms but rather by those in less protected segments of the markets, including those at SMEs and young workers, with joblessness rising sharply among unskilled workers, in particular (Lee et al. 2008). Moreover, the “employed” pool contained a significant proportion of part-time workers and day laborers. Consequently, on the macro-level, labor flexibility measures were not applied equally across the entire labor market. This strengthened the two-tiered structure of the labor market, polarizing the workforce between a core of unionized workers with relatively robust job protections and precarious workers in at-will employment (Lee et al. 2008; Lee and Lee 2008).

Thus, the major consequence of restructuring and labor force polarization was rising income inequality, as reflected in Korea’s increasing Gini coefficient. Korea’s Gini coefficient had been declining in the 1980s and early to mid-1990s before beginning to increase in 1997, a trend that lasted until the late 2000s. Specifically, it rose from 0.283 to 0.320 between 1997 and 1999, slowly decreased to 0.312 in 2002, and then rebounded to 0.306 and 0.310 in 2003 and 2004, respectively.<sup>4</sup> Other indicators of economic equality, such as the share of total wealth held by the top ten richest individuals and the labor share of GDP, all show a similar pattern of improving income equality from the mid-1980s to the late 1990s and then a reversal of this trend that lasts until the end of the 2000s.

<sup>2</sup> The maximum amount of the treasury stock repurchases has been expanded to 100% of profits, and decision about retiring treasury stocks can now be made exclusively by the board of directors rather than by shareholders at general assemblies. Accessed in July 2023 at <https://n.news.naver.com/article/008/0000022827>

<sup>3</sup> Of course, growth slowdown at a later period or since the 2010s was also caused by Korea’s rapidly aging population and the sinking birth rate.

<sup>4</sup> The source of Gini coefficient is <http://kosis.nso.go.kr>. An updated trend of the labor income shares is from Lee (2017), and the top 10 shares are from Shin and Lee (2019).

In sum, the radical reforms after 1997 had several long-term costs, such as enabling increased ownership in and influence over Korean firms by foreign investors, which resulted in the rise of shareholder capitalism. The Korean economy had become subject to lower investment and slower growth, and rising inequality associated with increasing labor market segmentation and asymmetric sharing of the burden of labor market flexibilization measures.

## 4.2 End of the East Asian miracle and a seed for the Anglo-American capitalism

The literature on Varieties of Capitalism (VoC) pioneered by Soskice and Hall (2001) classifies economies around the world in terms of several key institutions (such as labor-management relations, vocational training and education, corporate governance and finance, inter-firm relations, and relationship with employees). VoC identifies several representative types of capitalism, such as liberal market economies (LMEs), coordinated market economies (CMEs), and mixed market economies (MMEs). LMEs tend to be found in the UK or former UK colonies such as the US, whereas CMEs are found in Continental European and East Asian countries. France, Italy, and Spain tend to be classified as MMEs.

East Asian economies have boasted a remarkable performance of high growth and low inequality, as captured by the phrase “East Asian miracle” (World Bank 1993). Thus, they have been designated as the “East Asian capitalism group” within the typology of the varieties of capitalism (VoC) literature (Storz 2013). However, the post-crisis reforms imposed by the Wall Street–Treasury–IMF complex introduced various Anglo-American institutions into Korean society, leading to a “new normal” of slow growth and rising inequality. The new situations characterized by slow growth and rising inequality lead to questions on whether Korea faces the end of East Asian capitalism (characterized by high growth and low inequality) and converges toward the Anglo-American systems (characterized by low growth and high inequality). Lee and Shin (2021) verified that this is true at least in terms of several indicators.

Whereas VoC literature tends to use the variables representing the underlying institutional characteristics of economies, Lee and Shin (2021) used outcome variables to compare economic performance, such as growth rate of GDP per capita, employment rate, and top 10% income share. A statistical analysis, specifically the cluster analysis, is conducted to statistically classify economies into several types over a long period of time. Table 2 shows the differences among the four types of capitalism, including East Asian capitalism, in terms of three outcome variables. Their average values are the average of those economies belonging to each cluster. The LME group is associated with slow growth, high inequality, and sound level of employment, whereas CME has a modest growth, low inequality, and sound level of employment rates. Between these two are MMEs with lowest rates of employment that probably reflect labor market rigidity. The East Asian group exhibits the highest growth and lowest inequality.

The analysis by Lee and Shin (2021) found that the East Asia cluster became empty in the 2000s with no member economies, which indicates the demise of

**Table 2** Four types of capitalism and their economic outcomes

Period	CME (coordinated market economy): modest growth; high employment; low inequality	LME (liberal market economy): low growth; high employment; high inequality	MME (mixed market economy): low growth; low employment; low inequality	East Asian capitalism: very high growth; high employment; very low inequality
GDP growth (%)	2.10	1.41	1.64	6.83
Employment (%)	60.32	59.23	47.15	59.54
Top 10% income share (%)	30.15	39.66	31.91	28.47

Source: Simplified adaptation of tables from Lee and Shin (2021) and Lee et al. (2020)

East Asian capitalism. South Korea and Japan used to be a pioneering economy in the East Asian cluster but joined the LMEs group with the US and UK. This result suggests that the type of capitalism in several East Asian and European countries has become similar to that of the US, which is consistent with the convergence hypothesis toward “bad capitalism” that features low growth and high inequality. Slow growth and rising inequality have actually been recent trends in both Japan and Korea. The top 10% share of the national income has increased globally, particularly in the US and East Asia, since the 1980s. The US exhibits the highest ratio of over 45%, followed closely by South Korea reaching 45% in 2010 and Japan with 40%.

The discussion above provides an intriguing perspective on capitalism in Korea that goes beyond the simple dichotomy of convergence versus divergence. First, in terms of macro-variables such as growth, inequality, and employment rates, Korea now belongs to the Anglo-American capitalism cluster characterized by slow growth and high inequality. This macro-level convergence is matched by firm-level convergence, meaning that chaebols now tend to borrow and invest less and grow slowly while tending to have higher profitability and dividend payments (Im and Lee 2021). This constitutes a sizeable departure from their operations up until the 1990s, when they used to borrow and invest heavily but paid fewer dividends in order to achieve fast growth.

## **5 Defining the variety of capitalism in Korea after decompression: a diverging convergence**

The preceding section suggests a possible convergence of Korea toward the Anglo-American capitalism as Korea is now experiencing slow growth and rising inequality. This shocking argument raises an important puzzle of how Korea can be considered as converging to the US or UK, despite the possible existing differences in its underlying institutions, such as labor market institutions, corporate governance, and political institution, as well as the state-finance relationship and the techno-industrial governance sphere (Thurbon 2016; Thurbon and Weiss 2021). Given this, it is our view that varieties of capitalism should be assessed in broad indicators comprising outcomes, institutions, and even policy preferences by the state. Therefore, this section examines more diverse variables regarding labor market institutions, social welfare spending, social wellbeing, labor market policies, and democracy.

### **5.1 Social well-being indicators: Korea as “safe capitalism”**

This chapter now considers several social welfare indicators, including life expectancy, crime rates, birth rates, gender inequality, and divorce rates. A total of 15 OECD countries will be compared in terms of these five indicators (see Table 3). To identify similarities and differences between these countries, a cluster analysis was



**Table 3** Birth rate, divorce rate, crime rate, gender inequality index, life expectancy, 2005, 2016

	Birth rate		Divorce rate		Life expectancy		Crime rate		Gender inequality index	
	2005	2016	2005	2016	2005	2016	2005	2016	2005	2016
Canada	10.60	10.60	2.2	1.7	80.2	82	2.1	1.7	0.14	0.10
Germany	8.30	11.80	2.4	2.0	79.4	81	1.1	1.2	0.12	0.08
Finland	11.00	9.60	2.6	2.5	79.1	81.5	2.3	1.3	0.09	0.06
Netherlands	11.50	10.10	2	2.0	79.6	81.7	1.1	0.6	0.08	0.05
Denmark	11.90	10.80	2.8	3.0	78.3	80.9	1	1.0	0.06	0.04
Group average	10.66	10.14	2.40	2.24	79.32	81.42	1.52	1.16	0.10	0.06
Australia	12.80	12.90	2.6	1.9	80.8	82.4	1.3	0.9	0.14	0.11
France	12.80	11.80	2.5	1.9	80.4	82.7	1.6	1.4	0.14	0.08
Sweden	11.20	11.80	2.2	2.4	80.7	82.4	0.9	1.1	0.05	0.04
Norway	12.30	11.30	2.4	1.9	80.3	82.5	0.7	0.5	0.09	0.05
UK	12.00	11.80	2.6	1.8	79.2	81.2	1.4	1.2	0.20	0.14
Group average	12.22	11.92	2.46	1.98	80.28	82.24	1.18	1.02	0.12	0.08
Italy	9.60	7.80	0.8	1.6	80.9	83.4	1	0.7	0.18	0.08
Japan	8.41	7.80	2.1	1.7	82	84.1	0.5	0.3	0.15	0.11
Spain	10.60	8.80	1.7	2.1	80.3	83.5	1.2	0.6	0.12	0.08
Korea	9.00	7.90	2.6	2.1	78.2	82.4	0.8	0.7	0.11	0.07
Group average	9.40	8.07	1.80	1.87	80.35	83.35	0.88	0.57	0.14	0.08
USA	14.00	12.2	3.60	3	77.60	78.7	5.70	5.4	0.26	0.23

Birth rate is defined as the number of live births per 1000 midyear population. Divorce rate is the crude number of divorces per 1000 people. Life expectancy is measured by the life expectancy at birth for total population, which means how long, on average, a newborn can expect to live, if current death rate does not change. Crime rate refers to the homicide rate per 100,000, and gender inequality index is a composition measure reflecting inequality in achievement between women and men in three dimensions which are reproductive health, empowerment, and the labor market. If GII is 0, it means complete equality, and if GII is 1, it means complete inequality.

Source: Birth rate is from World Bank (<https://data.worldbank.org/indicator/SP.DYN.CBRT.IN>), and divorce rate and life expectancy are from OECD (<https://stats.oecd.org/Index.aspx?DataSetCode=FAMILY>). The divorce rate is in the category of Family database, and the life expectancy is in the category of Health status. The divorce rate for Canada in 2016 is from Canada Statistics as OECD does not provide the divorce rate data for Canada since 2009 (<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3910005101>). Crime rate is from UNODC (United Nations Office on Drugs and Crime) (<https://dataunodc.un.org/dp-intentional-homicide-victims>). Gender Inequality Index refers to Human Development Report 2020 from UNDP (United Nations Development Programme) (<https://hdr.undp.org/content/human-development-report-2020>)

conducted, dividing countries into several groups. Cluster analyses identified four major clusters. The first group includes four northern European countries (Denmark, Finland, the Netherlands, and Germany) and Canada. The second group is somewhat mixed and includes two northern European countries (Sweden and Norway), one continental European country (France), and two Commonwealth countries (UK and Australia). The third group includes two East Asian countries (Japan and Korea)

and two southern European countries (Spain and Italy). The last group has only one member country—the United States. In other words, the United States is an outlier, representing an exceptionally dangerous form of capitalism with the highest crime rates, shortest life expectancy, highest divorce rates, and highest gender inequality.

While the third group may sound odd, these four countries share important commonalities that can be described as features of “safe capitalism”—that is, these countries have the lowest crime, divorce, and birth rates; a medium level of gender inequality; and the longest life expectancy. Although these southern European countries have been perceived as somewhat poorly performing economies, they demonstrate good performance in terms of social well-being indicators. It could be postulated that their slow economic growth has been the price of maintaining a certain level of safety regarding their welfare systems. In contrast, the Nordic countries, which are considered to have pioneered welfare capitalism, seem to have somewhat gone astray, as they now have very high crime rates and divorce rates and slightly lower life expectancy (slightly below 82 years) compared to southern Europe (about 83.5 years).

It is interesting to note that Korea’s social well-being indicators are similar to those of Japan and southern Europe but differ significantly from those of the United States. Thus, it can be said that in terms of social welfare variables, Korean capitalism does not converge with the Anglo-American model. Instead, Korea has converged with a different set of countries that demonstrate better social welfare performance—that is, southern European countries and Japan. In particular, life expectancy has continually improved in Korea, increasing from 78.2 years in 2006 to 82.4 years in 2016, meaning that the country has achieved one of the longest life expectancies in the world (Table 3).

Korea’s decent performance in terms of welfare indicators is surprising given the country’s characterization as a “small welfare state” (Yang 2017), where social welfare expenditures are substantially lower than the OECD average. Korea spent 9.7% of its GDP in 2014 on social welfare, compared to the OECD average of 21.1% (Yang 2017, pp. 1–2). Although Korea’s welfare expenditures are relatively low by comparison, the positive indicators outlined above seem to be a result of the country’s increasing welfare expenditures since the 1990s, which have contributed to stopping the rise of the Gini coefficient in the country since the 2010s (Wong and Lee 2018). The share of public expenditures on social protection as a percentage of GDP reached 2% in the early 2000s and then tripled to 6% in 2014. This remarkable jump far outpaces the growth rate of the R&D to GDP ratio, which was 2% in the early 2000s, 3% in the late 2000s, and then 4% in the mid-2010s (Wong and Lee 2018).

Yang (2017) observed that Korea’s comparatively weak welfare state is intimately related to the legacy of compressed development, which suppressed labor organizations and their struggle for political power, as well as decompression, which divided the working class between well-compensated workers in stable employment at large corporations and precarious workers in poorly paid, non-unionized employment at SMEs. Although workers in the former group held some political power, it did not demand social welfare reform, as they were benefitting from the employee benefits (health care, retirement, paid time off, etc.) supplied by chaebol firms. Workers in

the latter group, by contrast, were not organized and had no political power with which to demand social welfare reforms (Yang 2017, pp. 60, 46–52). This polarization in the labor market has led to a corresponding divergence in access to insurance coverage. For instance, at large firms, about 75% of both full-time, tenured workers and precarious, at-will workers are covered by employment insurance. In the SME sector, however, the ratio is 64% for tenured workers and 37% for precarious workers (Table 1.1 from Yang 2017, p. 20).

Following the implementation of nationwide universal health insurance by Park Chung-hee in 1971, the enactment of the NBLSA by the Kim Dae-jung government constitutes the second major milestone in enhancing Korea's social welfare system (Kim 2020, p. 87). The NBLSA is a public assistance program that provides cash and in-kind benefits to people living in households with incomes below a certain national standard. In this way, it guarantees a minimum standard of living regardless of age or employment status. The post-crisis liberal-left governments of Kim Dae-jung and Roh Moo-hyun, in fact, introduced various welfare programs (Kim 2020, pp. 78–79). In particular, the Kim government improved the social welfare system by reconsolidating the health insurance system and restructuring social insurance schemes. Subsequently, the Roh Moo-hyun government oversaw a remarkable expansion in social services, such as child and elderly care. This trend even continued under the two consecutive presidencies of Lee Myung-bak and Park Geun-hye, with both administrations expanding the scale of social welfare coverage (Y. Kim 2020, p. 78).

## 5.2 Labor market outcomes and institutions

Now let us examine several indicators of labor market institutions. In this context, key variables include working hours, as well as the age and gender wage gaps, as shown in Table 4. The cluster analysis generated four groupings. The first cluster includes the United States, Japan, Canada, Australia, Spain, and Italy. The second cluster includes the UK, France, and Finland. The third cluster includes the five northern European countries of Sweden, Denmark, the Netherlands, Norway, and Germany. Finally, Korea is the outlier that forms its own group. This implies that Korea still conforms to the model of East Asian capitalism, which is characterized by long working hours and large age and gender wage gaps.

This outlier status is due to Korea having extremely high gender and age wage gaps, as well as excessively long working hours. In 2018, among the countries in the table, Korea had the longest average annual working hours at nearly 2000; the United States had the second longest hours at 1780. The salaries of Korean men are almost 34% more than those of women. That said, men and women tend to work in different industries, and therefore, this gap does not necessarily apply to men and women working the same job. As of 2018, Korean seniors (55–64 years old) were paid 19% more than younger workers (25–54 years old) on average. However, a positive sign is that all three of these indicators improved between 2006 and 2018.

The above results are comparable to the results from a similar cluster analysis done by E. Jung (2020), which included many indicators. If the variables are limited

**Table 4** Gender wage gap, wage gap by age, working hours (suicide mortality rate): 2006, 2018

	Gender wage gap		Wage gap by age		Working hours		Suicide mortality rate	
	2006	2018	2006	2018	2006	2018	2006	2018
Canada	21.12	18.52	3.44	0.15	1744.00	1708	11.20	12.00
Spain	13.53	8.62	22.35	13.94	1713.70	1697.62	7.50	7.80
Italy	10.51	5.71	29.46	18.52	1811.90	1719.40	6.70	6.70
Australia	16.67	16.14	-0.27	1.24	1802.43	1732.54	10.60	12.40
Japan	32.98	23.54	0.68	1.83	1785.56	1680.17	23.90	16.70
USA	19.25	18.91	7.93	8.65	1796.33	1781.57	12.10	15.70
Group average	19.01	15.24	10.60	7.39	1775.65	1719.88	12.00	11.88
UK	21.72	16.31	-4.70	-1.90	1536.39	1536.18	7.80	8.10
Finland	-2.12	18.86	6.28	3.24	1608.00	1546.37	21.00	16.20
France	9.39	11.82	32.31	17.08	1515.00	1514.41	18.50	14.20
Group average	9.66	15.66	11.30	6.14	1553.13	1532.32	15.77	12.83
Germany	18.54	15.44	9.26	9.75	1453.20	1384.70	12.80	12.90
Denmark	10.17	4.86	2.40	2.45	1455.70	1381.29	14.70	11.40
Netherlands	15.98	12.66	13.62	14.95	1430.45	1436.06	9.60	11.40
Norway	8.21	5.13	3.99	10.03	1426.40	1419.20	12.80	12.00
Sweden	11.02	7.14	2.96	5.33	1450.12	1466.18	15.00	14.90
Group average	12.78	9.05	6.45	8.50	1443.174	1417.49	12.98	12.52
Korea	39.77	34.11	29.46	18.52	2228.00 (2008)	1993.00	23.70	28.60

The gender wage gap is defined as the difference between median earnings of men and women relative to median earnings of men. Data refer to full-time employees on the one hand and to self-employed on the other. The wage gap by age is measured by senior wage over the prime-age wage, which is defined as the difference between mean earnings of 55–64-year-olds and those of 25–54-year-olds relative to mean earnings of 25–54-year-olds. Earnings refer to gross earnings of full-time dependent employees. Working hours means the average annual hours actually worked defined as the total number of worked over the year divided by the average number of people in employment. Part-time workers are covered as well as full-time workers. The suicide mortality rate is the number of suicide deaths in a year per 100,000 population, not age adjusted. The average cluster analysis method is used using gender wage gap, wage gap by age, and working hours in 2018

Source: Gender wage gap in OECD (<https://data.oecd.org/earnwage/gender-wage-gap.htm>), Wage gap by age in OECD ([https://stats.oecd.org/BrandedView.aspx?oecd\\_bv\\_id=ifs-data-en&doi=df939ec3-en](https://stats.oecd.org/BrandedView.aspx?oecd_bv_id=ifs-data-en&doi=df939ec3-en)), Average annual hours actually worked in OECD ([https://stats.oecd.org/BrandedView.aspx?oecd\\_bv\\_id=ifs-data-en&doi=df939ec3-en](https://stats.oecd.org/BrandedView.aspx?oecd_bv_id=ifs-data-en&doi=df939ec3-en)). Suicide mortality rate in World Bank (<https://data.worldbank.org/indicator/SH.STA.SUIC.P5>)

to those reflecting labor market outcomes, such as unemployment rates, long-term employment rates, wage inequality, working hours, and wage gaps, then Korea and the United States both fall into the same cluster, which puts them in the company of other Anglo-American economies. Such an outcome is consistent with the results of our cluster analyses using labor market institutions, such as the level of collective bargaining and unionization rates. Table 5 shows that the collective bargaining coverage and unionization rates in Korea are 14.8% and 11.6%, respectively. This

**Table 5** The indexes for labor-working status investigated by OECD (2018)

	Strictness of Employment Protection: Regular contract	Strictness of Employment Protection: temporary Contracts	Public Expenditure on active LMPs	Public Expenditure on passive LMPs	Collective Bargaining Coverage	Trade Union Density
Korea	2.42	2.13	0.36	0.38	14.80	11.60
Japan	1.37	1.00	0.15	0.15	16.90	17.00
<b>Group Average</b>	1.90	1.57	0.26	0.27	15.85	14.30
USA	0.09	0.25	0.10	0.15	11.70	10.10
UK	1.35	0.38	-	-	26.00	23.40
Canada	0.59	0.25	0.21	0.49	30.10	25.90
Australia	1.67	0.88	0.24	0.55	61.20	13.70
<b>Group Average</b>	0.93	0.44	0.18	0.40	32.25	18.28
France	2.56	3.00	0.75	1.97	98.00	-
Germany	2.60	1.38	0.68	0.70	54.00	16.60
Italy	2.47	1.63	0.42	1.14	100.00	32.60
Spain	1.96	2.47	0.71	1.45	80.10	13.00
<b>Group Average</b>	2.40	2.12	0.64	1.32	83.03	20.73
Sweden	2.45	0.81	1.11	0.46	88.00	65.60
Netherlands	3.44	1.19	0.59	1.37	76.70	16.50
Denmark	1.53	1.63	1.89	0.98	82.00	67.50
Finland	2.00	1.56	0.94	1.27	-	60.00
Norway	2.33	2.50	0.42	0.36	-	49.90
<b>Group Average</b>	2.35	1.54	0.99	0.89	82.23	51.90

\*Source: <https://stats.oecd.org/>. Notes: The collective bargaining coverage rate is the percentage of employees covered by an active collective agreement compared to the total number of eligible employees, who have the right to engage in collective bargaining; Trade Union Density is defined as the number of net union members, excluding workers who are not a part of the labor force, unemployed individuals, and self-employed workers as a proportion of the number of employees

situation is comparable with the United States, where the numbers are 11.7% and 10.1%, respectively. These figures are extremely low compared to the average of the four continental European countries, where they were 80.0% and 20.7% as of 2018 (Table 5). In northern European countries, the average rates of unionization are much higher at over 50%, except for in the Netherlands.

However, legal protections against layoffs are somewhat higher in Korea than in typical Anglo-American economies. For instance, Table 5 shows that as of 2018, the average index value for the strictness of employment protections was 0.93 for tenured workers and 0.44 for temporary workers in Anglo-American-style economies. The comparable figures for Korea are 2.42 and 2.13, respectively. On this basis, Korea's labor market can be characterized as a (neo)liberal regime with considerable regulation (Jung 2020).

However, further qualification is needed because, in terms of the degree of active (or passive) LMPs (labor market policies), Korea is closer to European economies

than to Anglo-American economies.<sup>5</sup> In 2018, the shares of expenditures on both active and passive LMP measures to GDP in Korea were both 0.36%. These figures are much higher than the rates of 0.15% and 0.10%, respectively, in the United States. However, the numbers for Korea are still very low compared to European countries. For instance, in 2018, the averages for the four continental European countries were 0.64% and 1.32%, respectively, whereas those for the northern European countries were 0.99 and 0.89%, respectively (Table 5). Passive LMP measures primarily address distributional concerns and mitigate the adverse effects of unemployment and poverty, and therefore, they function more like a social safety net. Active LMP measures, in contrast, aim to directly reduce unemployment, match labor supply and demand, and enhance individuals' employability and job opportunities and the specific tools include support for worker training, employment incentives, direct job creation, and startup incentives.

Korea still has considerable room for improvement; this applies not only to Korea's shortcomings in LMP expenditures but also to the actual types of measures. According to the same OECD data, compared to Europe, active LMP measures in Korea are skewed more toward direct job creation by public spending and less toward training and employment incentives.<sup>6</sup> In fact, whereas Korea spends only 0.06% of GDP on worker training, the four continental and five Nordic European countries spend 0.17% and 0.20%, respectively. In contrast, Korea spends as much as 0.15% of GDP on direct job creation, which is approximately 2.5 times more than Korea spends on training. By comparison, the four continental and five northern European countries spend approximately 0.08% and 0.11%, respectively, on job creation.

### 5.3 Political institutions and democracy

Finally, this section now addresses factors related to political institutions, such as democracy, freedom, and corruption. Table 6 shows indicators of these aspects and rankings of diverse countries, most of which belong to the OECD.

First, in terms of the level of democracy, Korea scores 8.03 out of 10 points and, therefore, ranks 24th out of over 100 countries. This level is comparable to continental European countries, such as France (8.07, 22nd), Italy (7.69, 34th), and Spain (8.07, 22nd), as well as Japan (8.33; 16th). That said, Korea is much lower than typical northern European countries. However, Korea's level of democracy is higher than that of the United States (7.85, 30th) and much higher than that of Singapore (6.22, 70th).

Second, if we compare Korea to other countries in terms of the political freedom index, which is a measure of political rights and civil liberties, a similar result emerges. That is, Korea's point is 83 out of 100, which is comparable to several

<sup>5</sup> The share of the expenditure on labor market policy, such as safety nets and worker training, in GDP has increased rapidly from 0.11% (active measures) and 0.17% (passive measures) in 2004 to 0.35% and 0.32% in 2015 (June 2020).

<sup>6</sup> The sources for the data are the same as other tables, which is the OECD (<https://stats.oecd.org/>)

**Table 6** Democracy Index, Global Freedom Status, and Corruption Perception Index of countries

Country	Democracy Index (country ranking)	Global Freedom Status	Corruption Perception Index (ranking)
South Korea	8.03/10 (24)	83/100 (free)	63/100 (31)
Singapore	6.22/10 (70)	47/100 (partly free)	83/100 (5)
Japan	8.33/10 (16)	96/100 (free)	73/100 (18)
US	7.85/10 (30)	83/100 (free)	69/100 (24)
UK	8.28/10 (18)	93/100 (free)	73/100 (18)
Canada	8.88/10 (12)	98/100 (free)	74/100 (14)
Australia	8.71/10 (15)	95/100 (free)	75/100 (13)
France	8.07/10 (22)	89/100 (free)	72/100 (21)
Germany	8.80/10 (14)	94/100 (free)	79/100 (9)
Italy	7.69/10 (34)	90/100 (free)	56/100 (41)
Spain	8.07/10 (22)	90/100 (free)	60/100 (35)
Sweden	9.39/10 (4)	100/100 (free)	83/100 (5)
Netherland	9.00/10 (9)	97/100 (free)	80/100 (8)
Denmark	9.28/10 (6)	97/100 (free)	90/100 (1)
Finland	9.29/10 (5)	100/100 (free)	87/100 (2)
Norway	9.81/10 (1)	100/100 (free)	84/100 (4)

Source: Democracy Index 2022 (Economist Intelligence Unit): URL: [https://www.eiu.com/n/wp-content/uploads/2023/02/Democracy-Index-2022\\_FV2.pdf?li\\_fat\\_id=f1fbad7e-a282-4b9e-9f8f-6a6d5a9fe6b8](https://www.eiu.com/n/wp-content/uploads/2023/02/Democracy-Index-2022_FV2.pdf?li_fat_id=f1fbad7e-a282-4b9e-9f8f-6a6d5a9fe6b8)

Global Freedom Status (Freedom House): URL: <https://freedomhouse.org/explore-the-map?type=fofn&year=2023>

2022 Corruption Perception Index (Transparency International): URL: <https://www.transparency.org/en/cpi/2022>

The Democracy Index represents the achievement of democracy in the range of 1 to 10. Transparency International's Corruption Perception Index scores (2022) range from 0 (Highly Corruptive) to 100 (Very Clean) for 180 countries

continental European countries but is lower than northern European countries (97 to 100). However, Korea and comparable European countries are all classified as politically “free” countries with points above 80: Korea (83), France (89), and Spain (90). Again, the United States does not rank that well, with a score of just 83. Singapore is worse off at 47 and, therefore, is classified as only “partly free.”

Third, according to the corruption index, Korea is again comparable to continental European countries with a score of 63, placing it 31st among all countries. For comparison, France scored 72 (22nd), Spain scored 60 (35th), and Italy scored 56 (41st). Here, as well, Korea scores much worse than northern European countries yet is similar to the United States (69, 24th). It is interesting to note that according to the corruption index, Singapore is ranked as very clean with a score of 83 (5th), which is comparable to northern Europe.

The above results imply that Korea belongs to the group of “free but not-so-clean” democracies together with several continental European countries and the United States. It is not all that surprising that the level of democracy in Korea is

comparable to that of the United States and several European countries. For example, Korea has elected a female head of state, former president Park Geun-hye—something that the United States has yet to do. Korea later impeached President Park Geun-hye on March 10, 2017, through a formal and orderly process as outlined in the Constitution. It can be argued that political systems in Korea are healthier than those in the United States in terms of the degree of plutocracy. Indeed, Korea has sent many former presidents to jail—including Chun Doo-hwan, Roh Tae-woo, Park Geun-hye, and Lee Myung-bak—as well as many CEOs of large corporations, such as Samsung, SK, and Hyundai.

Although it was not until the late 1980s that the democratization movement was able to secure procedural democracy and the direct election of the president (see Section 3), Korea's democracy has since quickly progressed, achieving a more balanced distribution of power among the executive, legislative, and judicial branches. That is, this democratic maturing was achieved by granting the legislative and jurisdictional branches increased power to compensate for the rather dominant position of the executive in the past. In current times, it is the legislature that has the final say on many issues despite the executive branch being responsible for implementing policies and proposing bills and acts.

#### **5.4 Diverging convergence: a summary**

The analyses comparing Korea with different varieties of capitalism in diverse indicators can be summarized as follows. First, in terms of macro-variables, such as growth, inequality, and employment rates, Korea now belongs to the Anglo-American capitalism cluster, which is characterized by slow growth and high inequality. Second, Korean firms are converging with US firms in terms of their behaviors. That is, they are borrowing and investing less and growing slowly while also displaying higher profitability and making increased dividend payments. This contrasts with their behaviors up until the end of the 1990s, during which time they borrowed and invested heavily but paid fewer dividends to achieve fast growth. Third, in terms of social welfare and well-being indicators, such as life expectancy and crime rates, Korea has joined the “safe capitalism” group alongside Japan, Italy, and Spain. Fourth, in terms of labor market indicators, Korea is an extreme outlier given its large gender wage gap, senior premium in wages, and long working hours. However, if we consider a different set of labor market outcomes, such as unemployment and long-term employment rates, wage inequality, working hours, and gender wage gaps, then Korea can be seen as belonging to the same cluster as the United States—that is, closer to the Anglo-American economic model. Further, if we consider various labor market policy variables, such as the degree of active (or passive) LMPs and the strength of legal protections against layoffs, then Korea is closer to European economies than to Anglo-American economies. Fifth, in terms of political institutions and democracy, Korea can be considered a “free” but “not-so-clean” democracy that is comparable to the United States and some continental European countries yet worse than the Nordic countries.



These findings imply that Korean capitalism cannot be described as converging with any particular model—nor can it be claimed that it is consistently similar to any particular type of capitalism or group of countries. In this sense, we can refer to this phenomenon as “diverging convergence,” which is to imply that while Korea is converging with some advanced capitalisms according to certain indicators, it also continues to remain distinct from other forms of advanced capitalism

## 6 Summary and concluding remarks

This paper has analyzed the long-term development of capitalism in Korea using a new framework of compressed development, decompression, and diverging convergence.

First, the middle class emerged in Korea in the 1980s as a result of compressed growth since the 1960s and served as a key intermediary in linking economic growth to democratization. The process of political decompression, or democratization, was peaceful because it was demanded and led not by the working class but by the middle class. Political decompression in Korea, which began gradually and in a compromised manner involving the merge of the pro-democracy party and the ex-military party, culminated in a radical transformation involving the purge of the ex-military elites and their replacement by new democratic elites. It can be considered a “political miracle” rarely seen in the history of the latecomer countries that gained independence after World War II.

Second, an ill-managed first wave of economic decompression (liberalization) led to a financial crisis, and then, post-crisis reforms (a second, more radical decompression) imposed by the IMF planted the institutional seeds for convergence toward Anglo-American capitalism characterized by slow growth and rising inequality. The economic decompression since the 1997 crisis was not a gradual internal process driven by political consensus among Koreans, but was forced by external forces, the IMF, to implant Anglo-American economic institutions and financialization. The new economic system emerged after the IMF program lowered the propensity for investment and growth in the Korean economy, while still failing to save the country from another crisis in 2008 and a near-crisis during the COVID-19 pandemic.

Third, it is an oversimplification to say that Korean capitalism is converging with or consistently resembling any particular type of capitalism or group of countries. But it can still be argued that we are now facing the end of the capitalist model that accompanied the East Asian miracle in Korea, as evidenced by the end of high growth and increasing equality. Therefore, it is more accurate to say that Korea is undergoing a multifaceted convergence toward different types of mature capitalism, with Korea having established itself as a variant of high-income mature capitalism that has characteristics similar to a variety of different developed capitalist economies. Thus, while we need to move beyond a simple dichotomy of convergence versus divergence, the term “compressed development” is outdated. Therefore, we use the term “diverging convergence” to characterize the nature of contemporary Korean capitalism.

That is, we seek to rationalize the strange coexistence of Korea's convergence with Anglo-American capitalism, characterized by slow growth, worsening inequality, and "free but not so clean" democratic institutions, alongside Korea's other convergence with the "safe capitalism" of continental European countries in terms of social welfare and well-being indicators, as well as some indicators of labor market policies. One source of this diverging convergence may be the planting of Anglo-American institutions through post-crisis reforms and the subsequent responses and demands by workers and civil society activists for a stronger social safety net and welfare protection in the context of rising labor market insecurity and worsening income inequality.

The underlying mechanism driving this trend may also be the increasing financialization in Korea, which is leading to slow growth and higher inequality. The high level of inequality, as measured by the share of income held by the top 10%, appears to be associated with low unionization; this inequality may also be partly responsible for Korea's moderate level of democracy, as inequality tends to be associated with more corruption and weaker protection of civil and political rights. In contrast, Korea's divergence from the United States as a "safe capitalism" with low crime and divorce rates and high life expectancy seems to be associated with the large difference in health insurance coverage as well as ethnic and cultural homogeneity.

In a sense, a fundamental force driving Korea's convergence with advanced capitalism in the West seems to be the general rise in Korean income levels. As Koreans have become richer, their behavior has come to resemble that of members of affluent societies. In addition, the rapid decline in the birth rate, which has now fallen below 0.8 births per woman, seems to be related to the rise in income levels. Declining fertility is a common phenomenon in affluent East Asian societies, first in Japan, then in Korea, Taiwan, and now even in China.

Finally, it may be advisable for Korea to seize the COVID-19 pandemic and deglobalization as opportunities to revitalize the economy by adopting policies that can curb the ongoing trend of financialization, restore the original strength of Asian capitalism, and return Korea to a trend of high growth and healthy social equity. The retreat of globalization provides a golden opportunity to restore autonomy in domestic economic policymaking on issues such as interest and exchange rates, while imposing adjustments to excessive capital mobility. However, instead of trying to return to the old model of East Asian capitalism, Korea should pursue a hybrid capitalism that rebalances elements of shareholder and stakeholder capitalism while keeping East Asian capitalism at its core.

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## Declarations

**Ethics approval** The authors declare that ethics approval is not applicable to the research, as the article does not report on or involve any humans and human data.

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## Authors and Affiliations

Keun Lee<sup>1,2</sup>  · Djun Kil Kim<sup>3</sup>

✉ Keun Lee  
kenneth@snu.ac.kr

Djun Kil Kim  
djunkil.kim@gmail.com

<sup>1</sup> Seoul National University, Seoul, Korea

<sup>2</sup> CIFAR (IEP), Toronto, Canada

<sup>3</sup> Institute of Economic Research, Seoul National University, Seoul, Korea