

The Promise and Perils of Korean Reunification

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It seems that nearly everyone publicly supports the reunification of Korea—the governments of the United States, North Korea, and South Korea, as well as the great majority of people in both North and South Korea. This should make us all nervous because it means that different people mean different things when they talk about reunification. We need to think carefully about what we mean when we offer our own support for reunification or, said differently, we need to stop thinking about reunification as unambiguously good and start thinking about it as a contested process. The obvious point is that a sound reunification process will greatly increase the likelihood of a desirable reunification outcome. One of our tasks then is to support Korean efforts to advance a reunification process that will be truly responsive to the needs of the Korean people.

Generally speaking, the U.S. media presents us with two choices when talking about reunification: we can choose between a fast absorption of North Korea by South Korea (similar to the German experience) or a gradual absorption of North Korea by South Korea (where the process happens slowly so that the North does not collapse and the overall costs of reunification are kept to a minimum). [1] Both alternatives assume that the desired outcome will involve the expansion (and strengthening) of the existing South Korean political economy. Actual reunification—where the people of two separate states develop a common program to produce a new political economy for a reunified country—is just not talked about.

This is largely because there is an assumption that the North will never have sufficient power actually to force meaningful negotiations and that there is nothing of value in the Northern experience. There is no doubt that the people of North Korea need and deserve a new system. But, it is also important for us to keep in mind that working people in South Korea also need and want significant transformation of their own system. This means that we should not conceive of reunification simply in terms of competing national interests—looking to see which state gains the most—but rather we must also be sensitive to competing class interests, which are not the same as national interests or bounded by national borders.

This brings me to the heart of my presentation today—the need for a change in the South Korean political economy and the critical importance of a progressive reunification strategy for realizing this change.

Growth and Crisis

South Korea is generally thought of as a development success story, a model for other third world countries, and therefore an attractive base upon which to build a new Korea. However, things are far from what they may seem.

The story of South Korea's rapid and sustained export-led growth from the early 1960s to the mid-1990s is complex but, at the risk of oversimplifying, this growth was made possible by four main factors, two domestic and two international. The domestic factors were state direction of economic activity (which meant control over the activities of the large South Korean conglomerates called chaebol) and state repression of labor. The international factors were Japanese willingness to sell technology, components, and machinery to the chaebol, and U.S. willingness to provide political and financial support to the South Korean government and a market for South Korean exports. The South Korean people were in essence subjected to a forced march, mostly under military dictatorship, which resulted in a significant national economic transformation. [2] Most analysts assumed that these four factors were relatively stable and therefore confidently predicted the country's continual economic progress. They were mistaken.

South Korea's growth strategy began to unravel beginning in the late 1980s, and largely as a result of contradictions generated by the country's very successes. South Korea achieved very rapid growth in this period and also its very first trade surpluses. These surpluses gave the chaebol new independence from the state, allowing them to engage in more speculative rather than productive investments. The years and pattern of growth also led to the creation of massive industrial cities with working-class majorities and finally a massive explosion of worker strikes in 1987, which led to the formation of new democratic unions and big wage gains.

South Korea's export successes in this period also threatened Japanese producers, leading them to withhold key inputs from South Korean exporters. Finally, South Korea's trade surpluses, which were largely achieved through sales in the U.S. market, provoked the U.S. government to pressure South Korea to revalue its currency and open its markets to U.S. goods and firms. These developments quickly began to undermine South Korea's export drive—the export growth rate fell from 36.2 percent in 1987, to 28.4 percent in 1988, 5.7 percent in 1989, and 3 percent in 1990. [3] [4]

The South Korean state was largely powerless to respond. It could no longer control the chaebol. It certainly could not control the Japanese or U.S. governments. And it was unable to control the economic strategies of other East Asian countries. So, it turned its attention to workers, repeatedly attacking the labor movement in an effort to restore corporate profitability. However, the labor movement had become strong enough to resist. For example, trade unions launched a general strike in 1996 in opposition to new repressive labor legislation.

Finally, in 1997, the economy collapsed. Several of the largest chaebol were forced into bankruptcy in the first half of the year, months before the start of the more generalized East Asian financial crisis. Foreign investors soon recognized South Korea's economic fragility and responded by selling their stocks and bonds and refusing to renew loans. With the economy heading into free fall, the South Korean government was forced to turn to the IMF. The country's GDP fell by over 6 percent in 1998. In short, the South Korea economy was laid low by a structural crisis, one that was years in the making.

Restructuring

There are two important things to say about the economic restructuring that followed the crisis of 1997–98. [5] The first is that the Japanese and U.S. governments turned down South Korean government requests for financial assistance, thereby allowing the crisis to worsen. They were no longer interested in supporting South Korean growth. The second is that the neoliberal/free market restructuring imposed on South Korea by the IMF (fronting for the U.S. government) also had the support of many chaebol. While the restructuring did weaken them relative to foreign capital, the chaebol had the structural power to survive the reforms. Moreover, they had already largely rejected the past planning system because it could no longer help them. Labor was their main target and they accepted restructuring because it included a series of measures that helped shift the balance of class forces in their favor. Thus, it has been workers and small- and medium-sized firms that have paid the heaviest price for South Korea's restructuring.

Post-Crisis Economic Dynamics

South Korea's economy grew rapidly in 1999 and 2000, leading the IMF to declare the neoliberal restructuring a success. However, growth slowed dramatically the following year and has remained significantly lower than in the past. South Korea's post-crisis growth has rested on four pillars: government deficit spending, foreign direct investment, consumer spending, and exports. We can appreciate the country's declining economic prospects by examining the trends affecting each of these pillars.

Aggressive government deficit spending was absolutely critical to the economy's initial rebound. But the level of spending could not be sustained. The deficits generated large public debt and the government soon came under IMF pressure to reduce its spending.

Foreign investment also played an important role in boosting growth in the years immediately following the crisis. However, much of it was "vulture investment" that involved takeovers of South Korean assets at fire sale prices. Significantly, once the most attractive assets were purchased, foreign investment rapidly declined. At the same time, this investment has led to a significant denationalization of South Korean capital. For example, foreign investors account for over 40 percent of the nation's total market capitalization, including majority shares in most large publicly trade firms such as Samsung Electronics and Hyundai Motor Company. [6]

As government deficits and foreign investment declined, South Korea's economic growth began to sink. The economy was saved temporarily in 2002 because of a rise in consumer spending. Unfortunately, this spending was largely based on credit-card debt. Thanks to government support, the amount of credit card spending rose from \$53 billion in 1998 to \$519 billion in 2002. With cash advances and credit-card loans accounting for approximately two-thirds of all consumer transactions, it was not long before many households faced unsustainable debt levels. [7]

Frightened by the possibility of financial chaos from massive bankruptcies, the government was forced to take steps to limit credit-card use. This led to a sharp fall in both private consumption and investment and a recession in 2003. Private consumption fell again in 2004, and investment remained stagnant. There has not been much improvement in either in the following years. In fact, private spending as a percent of GDP hit a record low 48.3 percent in the first half of 2008. [8]

As a result of these trends, the South Korean economy is now more dependent than ever before on exports; exports in the first half of 2008 accounted for 64.9 percent of GDP, a record high. [9] [10] Moreover, there is an increasing disconnect between the country's growth and the satisfaction of popular needs.

Downward Spiral and Class Struggle

The government of past president Roh Moo-hyun (2003-07) responded to the country's weakening economic position by launching a major campaign to reverse the decline in foreign investment. It established three free economic zones where foreign businesses can enjoy tax breaks and exemptions from various environmental and labor regulations. It pursued bilateral investment and free trade agreements with many countries, including Japan and the United States. And, it pursued an aggressive anti-labor offensive which included breaking strikes (through compulsory arbitration and police interventions) and new labor laws (which encouraged the use of temporary workers and made unionization more difficult). The current government led by President Lee Myung-bak (who was elected in December 2007) has generally promoted the same policies.

Significantly, these efforts have so far failed to attract significant foreign investment. In fact, foreign direct investment actually recorded a net outflow of almost \$1 billion in the first half of 2008, marking the first negative total since data collection on foreign direct investment (FDI) began in 1980. [11] A major reason is that other countries, especially China, offer even more attractive investment packages. In 2004, the head of the American Chamber of Commerce in Korea made this explicit when he said, "Korea's competition is Shanghai, Hong Kong and China. Realize what your competition is, because investors can choose where to go." He singled out the need for more "labor flexibility" in South Korea. [12]

Government efforts have also failed to stimulate domestic investment. In fact, the chaebol are steadily shifting production out of the country. FDI by South Korean firms totaled \$5.9 billion in 2003, \$8.1 billion in 2004, \$9.2 billion in 2005, and \$12.5 billion in the first three quarters of 2006. [13] And, China is the main location. According to the Korea Chamber of Commerce and Industry, "about nine out of ten companies manufacturing products in Korea have plans to invest in China in the future, as the country's low production costs and the eager-to-please regulations make the market more attractive than Korea." [14]

Signs of industrial hollowing out are already visible. For example, South Korean firms have largely stopped buying new equipment for their domestic operations. South Korean manufacturing spending on new plant and equipment in 2004 was more than 4 percent lower than in 1996. Facility investment which grew at an annual rate of over 10 percent before 1996 has averaged only 1.1 percent over the first half of this decade. [15] One consequence is that employment in manufacturing is now on the decline.

These trends are not just signifiers of future problems. Working people are already paying a heavy price for South Korea's post-crisis restructuring. Poverty rates have soared from approximately 9 percent in 1996 to 20 percent in 2006. The middle class is rapidly shrinking, falling from approximately 56 percent of all households in 1996 to 44 percent in 2006. And inequality has hit record levels: the top 20 percent income bracket earned 4.5 times more than the bottom 20 percent in 1996 and 7.1 times more in 2006. [16]

Labor market restructuring is a major cause of these negative social trends. The percentage of workers with regular labor status fell from 58 percent before the crisis to 45 percent in 2006. And, irregular workers—now the majority of the labor force—make "just over 50 percent of what regular workers earn in monthly wages." [17] This outcome is a logical consequence of South Korean government and business efforts to boost corporate profitability and export competitiveness.

A 2004 Korea Broadcasting System survey on the economic state of the nation provides perhaps the clearest evidence of the failure of neoliberalism to satisfy majority needs. As reported by the *Korea Times*, the survey found that: "More than half of South Koreans feel that the current economic

situation is worse than it was in late 1997 when the financial crisis shook the nation....In particular, 52.6 percent of the respondents said that their current living standards are worse than six years ago, while only 9.9 percent felt their living conditions would improve." [18]

Reunification and the Struggle Ahead

The post-crisis neoliberal restructuring has clearly been a disaster for the majority of South Korean working people. Even more tragically, South Korea is now trapped in a self-reinforcing downward spiral. The restructuring increased the economy's dependence on foreign investment and exports. Thus, foreign firms and the chaebol find themselves in an excellent position to demand further concessions which if granted would only reinforce this same dependency.

South Korean workers have tried to defend their interests through mass actions and strikes but they face significant structural constraints. In particular, their militancy just accelerates the capital outflow and allows the government to blame workers rather than corporate actions or its policies for South Korea's growing economic difficulties. Tragically, many in the middle class accept this claim, making it easier for the government to resist (and repress) opposition to its policies.

Clearly, working people need a major structural transformation of their country's political economy—a far from easy task. And, it is in the context of considering how best to approach this challenge that the issue of reunification becomes relevant. The division of the country continues to offer the South Korean government a powerful weapon to use against those seeking change. For example, the government continues to use the National Security Law (NSL) to arrest trade union leaders and repress union organizing and strikes. The government is also using the NSL to arrest social movement leaders as well as repress demonstrations, such as the one against the free trade agreement with the United States.

The government also continues to use national security concerns to limit popular exposure to any ideas that might encourage critical thinking of alternatives. For example, in July 2008, the Ministry of National Defense ordered all branches of the military to restrict the access of those in the military to so-called "seditious books." These books fall into one of three categories: pro-North Korean, anti-government and anti-U.S., and anti-capitalist. So far, twenty-three books have been listed. Military authorities have also instructed the services to block distribution of "dangerous" documents by requiring that all mail be opened in the presence of a military officer. [19] In August 2008, the government arrested a university emeritus professor and seven other people on charges of violating the NSL. Their crime: they are members of an organization that has a Web site promoting socialism (even though the site also criticizes North Korea). [20]

Thus, without progress on reunification, worker organizing and progressive efforts to articulate and promote alternatives to the existing South Korean political economy will remain difficult if not impossible. There is, of course, no ready-made list of the changes that people in the South need or a plan for the ways these changes could be achieved as part of a reunification process. But what must be acknowledged is that a reunification that merely strengthens existing South Korean structures is not desirable for working people in the South as well as the North. Therefore, what must be developed is a strategy capable of clarifying the nature of desired changes and advancing a process of reunification with the potential for realizing them.

A key component of that strategy must be dialogue. We need to fight to create space for dialogue across the DMZ—bringing together from the North and South: unions, to discuss appropriate labor laws and forms of workplace organization; educators, to design a new educational curriculum for a democratic reunified country; environmentalists, to shape an economic growth strategy that is

sustainable; and women's movements to advance and protect women's rights. [21] Such conversations have the ability to generate new visions (and more independent Northern organizational partners) and in the process help people on both sides of the DMZ develop criteria for evaluating and (hopefully) influencing the reunification strategies likely to emerge from their respective governments. Just preparing for such a dialogue is likely to help strengthen and unify social movements in the South and transform the South Korean political agenda in important ways.

There are a number of things we in this country can do to help promote this process. We need to educate Americans about the destructive nature of the National Security Law and pressure Washington to demand that the South Korean government end its use. And we need to work to promote the normalization of relations between the United States and North Korea, which will help to create an atmosphere conducive to productive Korean cross-border talks. And we also need to promote an understanding in this country that people in the South and in the North will likely want to create a new political economy that will be significantly different from those that currently exist in the South and the North and that it is their right to do so.

Our efforts in this regard should not be thought of as a matter of altruism. Progress would mean a greatly reduced risk of a new war on the Korean peninsula, saving lives and allowing us to reduce our own huge military budget in favor of much needed social spending. Moreover if new social visions do emerge, they just might stimulate new thinking in this country about possibilities for our own much needed social change. That, after all, is what real solidarity is about.

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P.S.

* From Monthly Review:

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Footnotes

[1] For a critical look at the German experience and its significance for Korea see Martin Hart-Landsberg, *Korea: Division, Reunification, and U.S. Foreign Policy* (New York: Monthly Review Press, 1998), chapter 8.

[2] A more complete discussion of the South Korean growth process is provided in Martin Hart-Landsberg, *The Rush to Development: Economic Change and Political Struggle in South Korea* (New York: Monthly Review Press, 1993).

[3] Hart-Landsberg, *The Rush to Development*, 161.

[4] And these developments were compounded by yet others. As a result of foreign, especially Japanese investment, a number of Southeast Asia countries, like Malaysia, Thailand, and Indonesia, also began producing and exporting goods that competed with South Korean products. By the mid-1990s, China had also become a major export platform for foreign multinationals. Unable to compete on the basis of either low labor costs or modern technology, South Korea began running bigger and bigger trade deficits and South Korean firms began running bigger and bigger losses. In 1996, the forty-nine largest business groups recorded profits of just \$32 million on combined sales of \$274 billion, for a rate of profit of just 0.1 percent. Moon Ihlwan, "Seoul is Still Teetering on the Edge," *Business Week*, December 29, 1997.

[5] The restructuring and its economic and social consequences is discussed in more detail in Martin Hart-Landsberg, "The South Korean Economy: Problems and Prospects," in Martin Hart-Landsberg, Seongjin Jeong, and Richard Westra, eds., *Marxist Perspectives on South Korea in the Global Economy* (London: Ashgate Press, 2007).

[6] Kim So-young, "Foreign Investors Increase Stakes to Gain More Input," *Korea Herald*, June 20, 2005.

[7] Florence Lowe-Lee, "A New Financial Crisis: Credit Card Excesses," *Korea Insight* 6, no. 2 (2004).

[8] Kim Yoon-mi, "Slumping Demand Makes Local Economy More Vulnerable," *Korea Herald*, July 29, 2008.

[9] Kim, "Slumping Demand."

[10] The new wrinkle is that it is China, rather than the United States, that is now the main destination, although most of South Korea's exports to China are intermediate products that receive further processing in China and are then re-exported to the United States (as Chinese exports). Thus, South Korea's growth prospects now rest on ever shakier pillars, most importantly the import capacity of the U.S. economy. These pillars have now largely collapsed. The popping of the bubble economy in the United States has triggered an ever worsening recession with global ramifications. Demand for goods in the United States and other core capitalist centers is contracting at a rapid pace, forcing adjustments in China that include a significant decline in that country's demand for imports of parts and components. South Korea is feeling the consequences: its exports fell by 19 percent in November, 18 percent in December, and 33 percent in January 2009. Domestic investment has largely come to a halt. South Korea's GDP fell at an annual rate of 5.6 percent in the fourth quarter of 2008; some economists are predicting that the country's economy will shrink by 3 percent in 2009. The income of irregular workers fell by 9.2 percent in 2008. See James M. Lister, "Weakness of Economy Confirmed," *Korea Insight*, February 2009; Park Min-young, "Working Poor Struggle Under Employment Rules," *Korea Herald*, December 16, 2008.

[11] Kim Yoon-mi, "Korea Suffers First Net FDI Outflow," *Korea Herald*, August 1, 2008.

[12] Kim Ji-hyun, "Flexibility in Labor Top Priority," *Korea Herald*, May 22, 2004.

[13] James H. Alvis, "Developments in Korea's Overseas Foreign Direct Investments," *Korea Insight* 8, no. 12 (2006).

- [14] Kim Mi-hui, "Factories Relocating Abroad to Cut Costs," Korea Herald, October 25, 2003.
- [15] Editorial, "Economy at the Crossroads," Korea Herald, June 2, 2005.
- [16] Ko Kyoung-tae, "Poverty Nearly Doubled in the Last Decade," Korea Herald, March 19, 2007.
- [17] Kim Tong-hyung, "Contingent Workers Look to Organize," Korea Times, December 31, 2006.
- [18] Kim Jae-kyoung, "Hardship More Serious Than 6 Years Ago," Korea Times, May 26, 2004.
- [19] Editorial, "Military Expands Book Blacklist," Hankyoreh (English), July 31, 2008.
- [20] Bae Ji-sook, "Economist Nabbed for Praising Socialism," Korea Times, August 27, 2008.
- [21] A few such meetings have taken place over the last ten years, but they have generally been one time occurrences rather than part of an ongoing process connected to a wider political organizing project.