Capitalist maturity and South Korea’s post-development conundrum

Anthony P. D’Costa

Development Studies, SSPS, University of Melbourne, John Medley Building, Parkville, VIC 3010, Australia

Correspondence
Anthony P. D’Costa, Development Studies, SSPS, University of Melbourne, John Medley Building, Parkville VIC 3010, Australia.
Email: promothesdcosta@gmail.com

Abstract
South Korea’s post World War II economic development trajectory is well known. From an impoverished war-torn nation, the country has progressed on all fronts. However, the objective is to focus on the “post-development” question, namely, what does a country do after it becomes prosperous. To put it another way, what are some of the emergent challenges that successful development poses for Korea, and how might it tackle them. I use the concept of capitalist maturity to denote Korea’s current state of prosperity and examine some of the economic, social, and political consequences. Some of these post-development conundrums I argue have resulted from the transformation of Korea’s state–business development partnership to a business–state political partnership in the context of a democratizing Korea. This paper examines the challenges and some of the policy options to address them, including the rebalancing of the state–business relationship.

KEYWORDS
capitalist maturity, post-development, shared growth, South Korea, state–business development partnership

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INTRODUCTION

South Korea’s post World War II economic development trajectory is well known. From an impoverished war-torn nation, the country has progressed on all fronts. In the 1950s, the country’s per capita income was estimated to be lower than India’s. Today, the income difference in nominal terms is 15-fold in favour of Korea. It stands out internationally when it comes to education. In the Organisation for Economic Co-operation and Development’s (OECD’s) Programme for International Student Assessment tests, South Korea ranks the highest on a number of dimensions such as mathematics, reading, and science, well above the USA and the OECD average.1 Nearly a hundred percent of the relevant cohort complete upper secondary education and 63% of the 24–35 year olds complete tertiary education. Its economic growth rates and subsequent structural transformation have been spectacular: from low-wage, labour-intensive industries to increasingly complex, capital, and technology-intensive ones. Today, it vies to be a world leader in innovation focusing its energies on knowledge-intensive sectors. Politically too, it has moved away from authoritarian to a more spirited, people-driven democratic system with its first female President to boot.2 Although she did not last out her term due to corruption charges, the election of the liberal candidate Moon Jae-in in 2017 suggests the deep-rooted malaise in the business–state relationship and the necessity of a correction in that relationship. Socially and culturally Koreans, notwithstanding their strong ethnic identity, have modernized on their own terms, become less homogeneous, and are at aiming to be at the forefront of fashion and cultural industries. In short, it seems to have achieved it all in just five decades.

My purpose of this paper is not to revisit the familiar story of Korea’s economic development. It has been covered widely and quite deeply (Amsden, 1987; Jones & SaKong, 1980; Perkins, 2013). Rather, the objective is to shift the discussion to what might be crudely called a “post-development” question, namely, what does a country do after it becomes prosperous.3 To put it another way, what are some of the emergent challenges such as inequality that successful development poses for Korea, and how might it tackle them. I use the concept of capitalist maturity (interchangeably used with economic maturity) to denote Korea’s current state of prosperity and examine some of the critical issues or conundrum facing the country. To address some of these challenges, there must be a rebalancing of the state–business partnership away from business domination toward a society-centric approach. Businesses are already responding to their constraints of saturated markets at home by exploiting international opportunities ensuring the dynamism of the Korean economy, whereas the state due to pressures from below are beginning to enact various welfare reforms at home.4

The rest of the paper is divided into two main parts. In Section 2, I elaborate on the concept of capitalist maturity and its relationship to external market expansion as a result of domestic

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1Center for International Education Benchmarking, “South Korea,” http://www.ncee.org/programs-affiliates/center-on-international-education-benchmarking/top-performing-countries/south-korea-overview/ Accessed 09/10/2014.

2There are of course areas of “freedom” in which Korea falls short such as freedom of expression and state control over media (see Haggard & You, 2014).

3I use post-development here in a completely different sense from the now fashionable usage where post-development suggests going beyond development as it has largely failed the world. I use it to examine the conditions that are largely the result of successful capitalist development in South Korea.

4I deliberately leave out the discussion on North Korea and possible reunification, acknowledging that the immediate costs will be high but the wider benefits over the long haul are likely to be substantial. The current President is favourably disposed toward negotiating with North Korea for regional stability.
I do this first by briefly exploring the particular and familiar “model” of Korean development, namely, the state–business partnership and its subsequent transformation to a political partnership, which has contributed to many Korea’s after-development challenges. Second, the idea whether the non-Korean OECD members offer any lessons for Korea’s conundrum because they have been in a state of economic maturity for some time is also explored. Here, I treat demographic shift in the form of declining fertility rate as an inherent feature of advanced capitalism and a source of economic drag. Third, I present four dimensions of capitalist maturity: economic growth trends, changing economic structure, trade composition, and Korea’s foreign investment to demonstrate the economic predicaments and responses to Korea’s maturity. In Section 3, I discuss Korea’s ongoing and potential responses to post-development, capitalist maturity in two parts: by briefly investigating Korea’s economic and business engagement with the external world particularly Asia, a region where Korea’s engagement is growing due to geographic proximity, growing markets, and lower costs, and by examining how Korea could share broadly its post-development prosperity at home through welfare reforms as a response to emergent domestic economic and social challenges. Section 4 presents a concluding summary.

2 | CAPITALIST MATURITY AND THE LESSONS FROM ADVANCED CAPITALISM

2.1 | Capitalist maturity operationalized

The dominant economic system in the 20th century has been capitalism. Others point out that while capitalism rules, there are particular national varieties of capitalism such as liberal markets or state-coordinated ones (Hall & Soskice, 2001). What is germane here is the growing importance of markets as social institutions that dictate economic life and contribute to economic prosperity, albeit unevenly and that these markets transcend national boundaries. The state, however, does not and cannot abdicate its responsibilities to the national economy. Rather, the role of the state changes by reinventing itself to foster better working markets by “governing” them (Wade, 2003) and get more out of markets (see Polanyi, 2001). The globalization of markets, and often with the explicit or tacit support of national governments, is integral to contemporary economic development process (D’Costa, 2012). Because businesses (or capitalists) create and work the markets to their advantage, capitalist maturity means businesses are experienced in their investment, technological, entrepreneurial, and hiring decisions. Economic prosperity or maturity is reflected in the structural sophistication of the economy, whether manufacturing or services, and characterized by high per capita incomes.

Accompanying capitalist maturity is the inevitable saturation of domestic markets, at least within the current techno-economic paradigm (Perez & Soete, 1988). The growing intensification of markets through rapidly rising per capita incomes via rising wages tends to limit growth rates as investment outlets through continuous industrial upgrading and diversification.

Systemically, however, capitalist maturity is not just a result of domestic limits. It transcends national boundaries and globally manifests itself in heightened competition in the context of slower global economic expansion. I do not pursue this systemic dimension of capitalist maturity in this paper.

This is not to say that falling birth rates and aging society are strictly a function of prosperity because spread of education, one-child policy as in China, and the diffusion of medical technologies and basic health care can also lead to declining fertility rate at much lower levels of economic development. Alternatively, high fertility rate or the demographic dividend that results from it need not translate into an economic boom if the youth do not have the necessary skills and education demanded by the market.
becomes more challenging. Related to this, large-scale production for reducing costs and enhancing efficiency becomes routine for global competition, which automatically imposes excess capacity under global competition. In the context of slow-growing population, domestic markets become relatively saturated, slowing economic growth rates and compelling domestic businesses to aggressively seek new products and services and expand internationally. This post-development economic maturity means that both Korean businesses and government must respond with appropriate strategies and policies to overcome domestic constraints in a globalizing context. Not only does trade and foreign direct investment become critical, state intervention in managing inequality (a result of successful capitalist development where the returns to capital are higher than to labour) become critical as well. In the relentless pursuit of economic growth, social welfare, which was relegated now, merits serious attention.

### 2.2 From maturity to post-development conundrum

There are many “explanations” to South Korea’s rapid economic development such as land reforms (Hamilton, 1983), Korea’s particular relationship with the USA (Cumings, 1987), the role of the state (Amsden, 1987; Jones & SaKong, 1980), widespread universal education (Perkins, 2013), leveraging comparative advantage through labour-intensive manufactured exports (Balassa, 1981), and South Korea’s positioning for and position in global capital accumulation (Grinberg, 2016). Contending and complimentary positions as these may be; the rise to and transition from capitalist maturity to a post-development phase is best explained by the state–business partnership and its subsequent transformation. Stated simply, the partnership between the Korean state and big business (chaebols, family-controlled business conglomerates) undergirded the developmental model (see Figure 1).

The development partnership between the state and business under Park Chung Hee in the 1960s and 1970s was effective because the authoritarian state retained the upper hand. In practical terms, it meant that the state was not captured. Businesses were kept in line due to the state underwriting international loans by private firms. The state’s goal was rapid industrialization, which was to be undertaken by the chaebols. The state provided generous subsidies,
allowing these businesses to prosper but on the condition that businesses met export goals laid down by the state. This development partnership began to change with the assassination of President Park Chung Hee, the military mastermind behind Korea’s rapid industrialization. The shift toward heavy and chemical industries in the 1970s economically empowered big businesses even more, and the Gwangju massacre in 1980 pushed the demands for democratization and distributive justice to new levels. The subsequent shift to democracy and its consolidation in the context of economic deregulation and globalization created a wholly new environment for Korea.

The democratization of South Korea no doubt contributed to a weakened development partnership. What it also did also create a new political space for big business. The chaebols, already enriched since the heady days of industrialization, had also grown in their political influence. With the departures of military rulers by 1987, increasing civic engagement for securing greater shares of the economy created a wedge between the state and society with big business emerging as a dominant player. Competitive politics also meant political contributions for election campaigns and thus the growing influence of chaebols. As a result, weak monitoring of business, growing non-performing loans, and moral hazard (too big to fail) characterized this new business environment. Privately, chaebols now operated to maximize family interests by not adhering to the checks and balances that are integral to modern corporate governance. Instead, they relied on various regulatory loopholes in shareholding and ownership rules, influence-peddling, and outright embezzlement for personal aggrandizement.

Theoretically, such a turnaround in the state–business relationship was inevitable. The rapid growth of business suggests capitalist maturity and thus growing financial independence from the state. Globalization no matter how calibrated in the Korean case (J. Lee, 2012) implied reduced effectiveness of state intervention because a growing share of chaebol activity was outside of Korea. Subsequent economic deregulation in line with other parts of the world but also as a response to the 1997 Asian financial crisis consolidated the power of the chaebols through deregulation and reinforced a business-driven economy. The success of the chaebols, now relatively unchecked, also resulted in growing inequality in a society known for its egalitarianism. New kinds of economic and social challenges now confront South Korea. These include, among others, growing disparity among various socio-economic groups, between small and large firms, foreign and domestic workers, and permanent and temporary workers. This interpretation does not mean that the shift to a political partnership is permanent. On the contrary, there have been periodic sporadic popular protests against this emerging political partnership throughout the 30-year period since the return of democracy in 1987. In more recent years such protests have taken on greater urgency. These movements have kept the spirit of democracy and fairness alive, and hence, the state can neither be complicit with lax rules governing chaebols nor ignore the demands of the public.

2.3 Korea’s capitalist maturity in a comparative perspective

Before we turn to these new challenges, I present briefly for comparative purposes two cases of capitalist maturity, the USA and Japan. Although the experience of the USA may seem less relevant for Korea due to very different initial conditions, size, and institutional environment, when it comes to the post-development challenges, the USA structurally does offer a window to what is possible and what to avoid when economic maturity sets in. The Japanese case is closer to Korea, not only having been intertwined with Japan’s colonization and influencing particular institutions in the process, such as an interventionist state, but also in terms of their economic development trajectories with the two countries having moved in parallel fashion,
with Korea chasing Japan industrially and technologically in a “flying geese” fashion in a number of manufacturing sectors, including high-technology electronics (Hatch & Yamamura, 1996). Furthermore, as we will see, Korea’s demographic developments resulting from declining fertility rates follow most OECD countries but in a far more pronounced way, even more so than Japan, which is considered to be an acute case.

The signs of Korea’s capitalist maturity can be captured from its changing economic growth trend, economic structure, trade composition, and foreign investment. Economic maturity is evident from its growth trend from the 8–12% per annum in the 1980s to less than 6% and 9% in the 1990s, which further fell to a low of 0.3% in 2009 and 2% in 2012. Although Korea has maintained its industrial dynamism as seen in the export-oriented sectors of automobiles, shipbuilding, and electronics—all high value items, its economic maturity is revealed by the growing composition of services to national income. Thus, civilian employment in industry reached its peak in 1991 with 36.82% of all civilian employment, gradually declining to 24.77% in 2011. Correspondingly, civilian employment in services consistently increased from 1980 to 2011, from 38.23% to 68.87%, respectively.

This transition from manufacturing to services for Korea is structurally no different from other leading OECD countries. For example, the US economy from a manufacturing powerhouse became predominantly a service-driven economy. Services, both private and government, in the USA contributed 83% of total non-farm employment in 2010 (D’Costa, 2016) and 80.4% of gross domestic product (GDP) in 2014. The massive industrial restructuring and the services transition were engendered by capitalist crisis internal to the USA but not independent of the rise of East Asia, particularly Japan and Korea, and triggered by low-wage export-oriented manufacturing investments by American firms in Southeast Asia. In the steel industry, the rise of Korea’s initially state-owned Pohang Iron and Steel Company (POSCO) along with Japanese steel companies was a major contributor to the reorganization of the American steel industry (D’Costa, 1999). Today, the USA has a massive trade deficit in manufacturing, largely with China, but enjoys a trade surplus in services. In 2013, the USA had a net surplus of $226 billion in services.

Japan’s manufacturing strength notwithstanding, today, it is also a service-driven economy. Not only has its growth declined from its “MITI miracle” days (Johnson, 1982) of 7–12% to anaemic rates of 2% and negative rates in the last decade (Ministry of Internal Affairs and Communications, 2013), its share of industry to GDP has fallen to 25% and share of services risen to 74% in 2010. Curiously in the last few years, Japan’s robust export surplus in manufacturing has taken a hit, possibly from China, leading to deficits, whereas it has had a persistent trade deficit in services (Ministry of Internal Affairs and Communications, 2013: 119). Japan’s trade balance was $69.2 billion in 2000, rising to $83.5 in 2007 and falling drastically to $17.8 billion in the first year of the recent global financial crisis in 2008. In 2013, Japan’s declining trade surplus was

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Korea Economic Institute 2014, Leading Indicators, http://www.keia.org/pagefullwidth/leading-indicators, Accessed 09/11/2014. All other data in this paragraph are taken from this source.

US Department of Commerce, Bureau of Economic Analysis, “Value Added by Industry as a Percentage of Gross Domestic Product,” http://www.bea.gov/iTable/iTable.cfm?ReqID=51&step=1#reqid=51&step=51&isuri=1&5114=a&5102=5, accessed May 1, 2015.

US Bureau of Economic Analysis, http://www.bea.gov/international/bp_web/tb_download_type_modern.cfm?list=4&RowID=160, accessed November 15, 2014.

JETRO 2014. International Economic Research Division, http://www.jetro.go.jp/en/reports/statistics/, accessed December 5, 2014.
transformed to a trade deficit of $119.7 billion mainly because of an unanticipated deficit of $104 billion on the goods sector and made worse, unlike the USA, by Japan’s persistent trade deficits in the services sector.

The structural lessons from the experiences of the USA and Japan suggest that with prosperity, the services sector ought to be the principal source of income and employment as manufacturing becomes “hollowed” out at home through offshoring. The question is how much of that will be driven by the exports of services. It is clear that it would be difficult for Korea to hold on to its manufacturing sector in the same way as it had leveraged it during its high growth period. Japan has found it difficult to hold onto its manufacturing because of rising costs, institutional rigidities, and international competition (including from Korea; D’Costa, 2016). It has been compelled to offshore lower value segments of manufacturing production to Southeast Asia, China, and elsewhere, leading to “hollowing out” firms. For Korea holding onto the high-value segments through research and development and continuous innovation, something that both Japan and Korea have not abandoned, will remain an important strategy.

The structural shifts in the USA and Japan serve as both a warning for Korean employment and an opportunity to expand outward. The other lesson is that despite many economic challenges, the USA has managed to develop an internationally competitive services sector, especially in computer and information services, insurance, and other business services, but Japan has been less successful. It has not been able to create a vibrant tradable services sector except in finance, signaling that Korea can expect to find entry into this sector difficult especially because the OECD and select non-OECD countries such as India are targeting the tradable services sector in which the role of a large pool of tertiary technical professionals becomes crucial.

On the demographic front, Korea’s progress borders on the alarming. With increasing prosperity, fertility rates have fallen worldwide, whether at the national or at the household level (Watanabe, 1992: 15, 20–26). In China, the one-child policy in the context of rapid economic development has contributed to declining fertility rate and paradoxically prematurely to an ageing society that is not commensurate with its still low per capita income.

According to the OECD, although Korea’s population has doubled to 50 million since 1960, it is projected to decline to about 43 million by 2050 (OECD, 2008: 29). Demographers for Japan have projected that by 2050 Japan’s population will have declined to about 92 million, from its current population of about 127 million (National Institute of Population and Social Security Research, 2012: 18). The reasons are the same for both countries: declining fertility rate. Fertility rate in Korea has dropped from 6 in 1960 to 1.2 in 2010 (well below replacement rate of 2.1). In this demographic transition, Korea is expected to experience the fastest rate of ageing (see Table 1). Although Japan and other OECD economies such as Germany, Sweden, and France had already exhibited rapid ageing as a proportion of the elderly population of 65 years and over, Korea from now on is expected to ironically catch-up and supersede these countries. Its elderly population is expected to double from 7% to 14% in 2018 and further increase to 20% in another 8 years, the fastest for any country undergoing rapid fertility decline, though still considerably lower than Japan’s projected level of 56% of elderly population by 2030 (National Institute of Population and Social Security Research, 2012: 16–19).11

11The falling fertility rate was sensationalized by a recent report by the National Assembly Research Service in Seoul predicted that by 2750 South Korea will be extinct (Noack, R. 2014. "Why South Korea Predicts its End will Come in 2750", Washington Post August 30, 2014, http://www.washingtonpost.com/blogs/worldviews/wp/2014/08/30/why-south-korea-predicts-its-end-will-come-in-2750/, accessed September 19, 2014.
Three related developments linked to capitalist maturity are increasing international migration, worsening inequality, and changing labour markets toward the informal. Although these developments have multiple causes in different countries and at different times, the contemporary macro dynamics based on the OECD experience can be captured by the following relationships. Although the international movement of people is driven by many factors (Castles & Miller, 2003; D’Costa, 2016; Goldin, Cameron, & Balarajan, 2011; Solimano, 2010), economic prosperity attracts migrants as both unskilled and skilled workers and professionals. The evidence for the OECD drawing in people from other countries is solid (OECD, 2014a). More importantly, the demographic shifts in the OECD create a variety of labour shortages, beginning with unskilled workers but also with highly skilled professionals. This is due to the fact that capitalist maturity demands moving out of low value goods production and services provision, arising from international competition fueled by globalization. With labour shortages in ageing OECD societies combined with the demand for skills in high value economic activities create the conditions of international migration. The impact of globalization is also cutting costs through reduced workers, automation, and creating a contingent labour force that is largely temporary, part-time, self-employment, and contract. This too has been witnessed in all the major OECD countries, including Korea (see Table 2). The high proportion of self-employment is likely a result of business restructuring and increasing scarcity of permanent jobs.

The growing wedge between secure, formal jobs versus insecure contract, temporary, and part-time jobs contributes to deeply segmented labour markets and worsening inequality. This is true more or less across the OECD countries where all three categories of vulnerable

| Country    | Year when the share of elderly (over 65) makes up: | Years elapsed |
|------------|-----------------------------------------------|---------------|
|            | 7% of population | 14% of population | 20% of population | 7–14% | 14–20% |
| Korea      | 2000 | 2018 | 2026 | 18 | 8 |
| Japan      | 1970 | 1994 | 2006 | 24 | 12 |
| Germany    | 1932 | 1972 | 2012 | 40 | 40 |
| United Kingdom | 1929 | 1976 | 2021 | 47 | 45 |
| Italy      | 1927 | 1988 | 2007 | 61 | 19 |
| United States | 1942 | 2013 | 2028 | 71 | 15 |
| Sweden     | 1887 | 1972 | 2012 | 85 | 40 |
| France     | 1864 | 1979 | 2020 | 115 | 41 |

Note. OECD = Organisation for Economic Co-operation and Development.
Source: United Nations in OECD (2008, 29).

Table 1

| Country    | South Korea | Japan | EU | Canada | Australia |
|------------|-------------|-------|----|--------|-----------|
| Part-time  | 11.1        | 21.9  | 17.5 | 19.1   | 24.9      |
| Self-employment | 27.4 | 11.5 | 16.5 | 8.8    | 10.1      |
| Temporary  | 22.4        | 8.4   | 13.7 | 13.4   | 5.6       |

Note. EU = European Union; OECD = Organisation for Economic Co-operation and Development.
Source: OECD Data, https://data.oecd.org/emp/part-time-employment-rate.htm, Accessed 10/24/2016.
employment have risen. Except for Korea, part-time employment (defined as working less than 30 hr a week, either as employees or self-employed) is high. This may be due to the historically long work week in Korea during the high growth, export-driven period, which under global competitive pressure has more or less remained. However, when it comes to temporary and self-employment, South Korea leads the OECD economies by a hefty margin, suggesting economic weakness and aggressive business restructuring. It also suggests that the power structure has shifted in favour of business. Consequently, the benefits of prosperity are narrowly distributed, especially in the absence of countervailing social policy as evident by the antilabour bias in labour market shifts. The differential returns to business versus wage earners induce inequality (Piketty, 2014). If capitalism is unregulated, the returns to capital under growth conditions generally tend to exceed the wage share to labour, thereby creating inequality under intensified globalization. South Korea under a transformed state–business relationship has been unable to escape this structural outcome as it does not have a strong welfare policy to buffer the shocks of big business dynamics in a competitive environment.\(^{12}\)

In Korea, the impact of the broader trends in the world economy is similar but does have its specific sources of inequality. In fact, Korea since its republican founding has been credited as being egalitarian just like Japan. However, chaebols have been nurtured by the Korean state during the period of high growth, which have expanded phenomenally in the last 40 years. These are gigantic firms. For example, in 2013, Samsung’s revenue was $214 billion, higher than the GDP of many developing countries.\(^{13}\) The problem is that the state has become the instrument of chaebol interests. The economic clout of families owning chaebol shares maintains their political influence, whereas many Korean middle and working-class families have been hit hard by the financial crises of 1997 and 2008. The effects of a prosperous economy have hit low- and middle-income households hard due to higher prices, including real estate and higher education. Layoffs due to business restructuring have contributed to the casualization and informalization of workers. For example, the share of temporary and contract workers in 2001 was 16.6% compared with 28.2% in 2007 (OECD, 2008: 37). Inequality, though not as bad as other countries, has crept in as evident in the increase in Korea’s GINI coefficient from 27.4 in 1990 to 31.3 in 2006 (OECD, 2008: 33).

Capitalist maturity accompanied by social change, especially declining fertility rates and ageing society, portends intractable challenges. They demand new ways to keep the economy moving and maintain the standard of living through new sources of business growth, innovation drive, additional revenues for increasing social expenditures, and friendly immigration policies to meet labour shortages. What Korea needs is a blend of strategies that carefully combine an engagement with the world economy, particularly Asia for its dynamism and geographical proximity; and an attention to domestic social needs such as welfare and inequality that comes with prosperity.

3 \ | \ TWO BROAD RESPONSES TO MATURITY

The challenges inherent in Korea’s prosperity require an external response through business expansion and attracting foreign workers and professionals; and an internal one that addresses

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\(^{12}\)The Scandinavian countries have adopted approaches that limit unbridled capitalist expansion and maintain high social expenditures through high taxes.

\(^{13}\)Samsung 2013. 2013 Samsung Electronics Annual Report, http://www.samsung.com/us/aboutsamsung/news/newsIr-Read.do?news_cigtwy=irnewsrelease&news_seq=20358, Accessed 09/11/2014.
social welfare and income distribution. The responses are part of the changed state–business relationship where the latter is now dominant in a democratic Korea. Democracy is not the cause of this changed relationship but a catalyst to creating new spaces for big business as the authoritarian state is no longer seen as legitimate. Between the shifts away from authoritarian to more democratic state and from a national industrialization effort to global integration, a third development has been the rise of an active civil society. Popular political movements have been energized due to past state repression and more recent worsening of economic conditions. These “forces from below” have brought the welfare agenda into the public domain (Ringen, Kwon, Yi, Kim, & Lee, 2011: 83, 89–90). But competitive politics mean regular elections, which has created new opportunities for business to influence the state (see Figure 1). Aside from political contributions and maximizing chaebol family interests, the gigantic size of chaebols has made monitoring difficult, leading to non-performing loans to support their frenetic expansion and reinforcing the perceived sense that the government would bail them out should there be a crisis.

This political partnership between business and politicians has remained since the last 30 years but not without its unstable character. Democratic forces, while not always effective against vested interests, do periodically rise up to right the wrongs. South Korea always had a politicized society, beginning with anticolonial movements against the Japanese, later against its military rulers, by industrial unions against big business, and against corrupt politicians. Thus, it is no surprise to find that Koreans who elected the country’s first female president also impeached her for corruption charges. The recent jailing of Jay Y Lee, heir to Samsung for bribing the president (ABC News, 2017), is also suggestive that democratic forces remain strong. However, as the structure of the economy changes and big business remains the “golden goose,” it would not be so easy to wrest control from the chaebols.

In this section, I first present Korea’s external economic engagement briefly by examining the composition of trade and foreign direct investment. These are strategic business activities and are consistent with firm growth and survival. The purpose is to see how Korea is engaging with Asia as a response to its prosperity and identify potential problems when expanding overseas. Second, I identify a set of domestic challenges that confront Korea today. Many of these challenges are a result of big business practices, whereby shareholders, in this case, many chaebol family members, reap the benefits of growth disproportionately relative to labour and flout basic corporate governance norms to pursue their personal profit goals and peddle influence.

3.1 | External and regional response

Korea’s development success has been attributed to export-oriented industrialization in a favourable external environment. Its ability to combine and appropriately sequence both labour- and capital-intensive industrialization for the world market has been extended today to exports of high-technology products. This is evident from Korea’s continued presence in world markets despite rising wages at home and low-wage competition from China (Figure 2). However, its export surplus has not been substantial, in part because of heavy raw material dependence and high technology imports from Japan and other OECD economies. Nevertheless, it has been

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14Pressures from below are also observed in less developed but highly democratic India, where massive welfare measures have been introduced due to rights-based movements despite markets governing more of economic life (D’Costa & Chakraborty, 2018, forthcoming).

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successfully using exports as a way to address domestic market saturation and attaining scale economies that is vital in maintaining cost competitiveness.

Although the USA and Japan, in this order, remained Korea’s principal export destinations from 1980 to 2000, with a combined share between 30% and 50%, by 2000, China overshot Japan with 12% share and, in 2005, became the top market.15 In 2013, China, the USA, and Japan absorbed 26%, 11%, and 6% of Korea’s exports, respectively. On the import side, the USA and Japan were the top markets, whereas Saudi Arabia, Malaysia, Australia, and Indonesia remained Korea’s chief energy suppliers in the last three decades. Plant and equipment, iron ore and coal, and energy for consumers and industries were the principal import items. By 2005, China displaced the USA to emerge as Korea’s second biggest supplier after Japan, and in 2010, China became the largest supplier. In 2013, Korea’s import shares from China, Japan, and the USA were 16%, 12%, and 8%, respectively.

However, continuing exports and industrial upgrading has its limits, as other countries especially in Asia are important producers and markets (China and India), offer natural resources (India and Indonesia), and are themselves becoming competitors to Korea (China and Vietnam). Hence, foreign direct investment (FDI) is critical to access markets when the production cycle is short, there are shortages of skilled professionals, and a complex local supplier industry is necessary to reap the benefits of FDI. Thus, Korean automobile production in multiple markets reflects market access as well host state initiatives to develop skills, generate employment, induce technology transfer, and capture spillover effects. For example, Korea’s Hyundai Motors has a growing operation in India, competing not only with other manufacturers, multinational and domestic, but also contributing toward an industrial ecosystem in Chennai in Tamil Nadu state in India and exporting. It produces roughly 640,000 vehicles of which nearly 40% is exported and has established a research and development centre in Hyderabad. In Figure 3, Korea’s increasing FDI is presented to indicate its strategic response to domestic market limits.

15Korea International Trade Association 2014, http://global.kita.net/, accessed August 7, 2014.
When FDI is disaggregated (Table 3), it is clear that Asia is a strategic destination especially expanding markets of China and India. It is intuitively evident that Korea’s manufacturing is likely to be present in these markets and in resource-based industries in countries such as Indonesia and India. Recent data on FDI by sectors show that mining followed manufacturing. The top five destinations in 2013 for Korea’s manufacturing investments were China, Vietnam, the USA, India, and Brazil. Interestingly, in 2013, the financial sector was active in FDI with a 25% share compared with mining’s 19% and manufacturing’s 32%. Since the early 2000s, manufacturing share has been gradually declining, indicating increased competition and the compulsion to diversify into tradable services, including cultural industries. The latter includes new media, pop culture, anime, and other information technology-based industries.

| TABLE 3 | Korea’s foreign direct investment by region (% share) |
|---------|--------------------------------------------------|
|         | 2000    | 2005    | 2010    | 2011    | 2012    | 2013    |
| Asia    | 32.4    | 59.3    | 41.3    | 38.9    | 40.4    | 38.3    |
| Middle East | 0.6   | 1.8     | 1.4     | 1.4     | 1.3     | 1.6     |
| North America | 27.9  | 17.7    | 19.0    | 29.2    | 22.1    | 20.8    |
| Central/S. America | 28.5  | 8.3     | 9.0     | 8.8     | 11.9    | 10.9    |
| Europe  | 5.9     | 9.0     | 24.9    | 15.0    | 14.7    | 16.6    |
| Africa  | 3.0     | 1.8     | 1.2     | 1.3     | 1.3     | 0.6     |
| Oceania | 1.7     | 2.1     | 3.2     | 5.3     | 8.4     | 11.1    |

Source: Korea Eximbank, Foreign Investment Statistics, http://21.171.208.92/idisas_eng.html, Accessed 08/09/2013.

When FDI is disaggregated (Table 3), it is clear that Asia is a strategic destination especially expanding markets of China and India. It is intuitively evident that Korea’s manufacturing is likely to be present in these markets and in resource-based industries in countries such as Indonesia and India. Recent data on FDI by sectors show that mining followed manufacturing. The top five destinations in 2013 for Korea’s manufacturing investments were China, Vietnam, the USA, India, and Brazil. Interestingly, in 2013, the financial sector was active in FDI with a 25% share compared with mining’s 19% and manufacturing’s 32%. Since the early 2000s, manufacturing share has been gradually declining, indicating increased competition and the compulsion to diversify into tradable services, including cultural industries. The latter includes new media, pop culture, anime, and other information technology-based industries.

16Korea Eximbank, Foreign Investment Statistics, http://21.171.208.92/idisas_eng.html, Accessed 08/09/2014.
17Korea Eximbank, Foreign Investment Statistics, http://21.171.208.92/idisas_eng.html, Accessed 08/09/2014.
Responding to market and resource opportunities is one way of getting out of the prosperity dilemma. However, business expansion internationally is not without its challenges. Foreign markets, institutions, and local cultures unexpectedly throw up impediments. Aside from anticipating these, Korean businesses undertaking production in Asia must also know how to transfer, adapt, and institutionalize their business, labour, and managerial practices in different cultural and institutional contexts. Aside from the tensions that arise when implementing Korea’s hierarchical managerial styles with local labour and managers, there are other instances when investments, despite favourable disposition of the host government, could be impeded. For example, Hyundai’s particular form of industrial relations in India (with a single company union) and massive reliance on temporary contract workers have been a source of tension between the company and other unions (see Gopalakrishnan & Mirer, 2014).

POSCO, the Korean steel giant, dropped its $5.3 billion project in Karnataka state and last year dropped the $12 billion steel project in Odisha due to delays in acquiring land in India (Song & Kazmin, 2013). POSCO had hoped to cash in cheap minerals in a captive mine and have access to its own port. However, the tribal communities, which subsist on mineral-rich land, refused to yield. The land issue in India is vexing due to unclear ownership, legalism, and resistance to selling the land if there is displacement and dispossession of people (D’Costa & Chakraborty, 2017; J. Park, 2015). India provides an important lesson of how not to expand outward. Expanding abroad through FDI requires managing institutional differences sensitively, especially when livelihoods are stake. Merely, exercising economic muscle, by then common among big Korean businesses, and transferring home-grown business practices are fraught with difficulties.

As Korea expands outward as a response to economic maturity, it also faces the task of receiving international migrants, especially from nearby Asia. The increasing pressure to move up the value chain of economic activities and the entry of multinationals in Korea as part of the larger globalization process calls for an increasing the supply of high-skilled professionals that could go beyond domestic availability. Although South Koreans have shown undue propensity for technical education, the talent pool is inadequate for new growth sectors and economic expansion in general. Consequently, both increasing demand for labour and higher wages relative to sending countries draw in migrants from the Asian region. This development, at least in terms of the basic dynamics, is not very different from other OECD countries. In fact, Japan has gone through this phase since the 1980s, selectively drawing in unskilled and skilled workers. Singapore, on the other hand, has taken full advantage of economic restructuring and the world economy by tapping into and managing the inflows of foreign workers, including the high-skilled professionals.

Korea’s relative prosperity in the region is already drawing migrant workers from China, Vietnam, Bangladesh, and Nepal to seek better opportunities. In 2011, the inflows of foreigners were reported at 307,249 compared with 293,070 the previous year. The stock of foreign population has roughly doubled between 2005 and 2010 to about one million. Foreign students mainly from Asia are also drawn to Korea’s education system, its pop culture, and employment opportunities (Kim & Oh, 2015). Migrants will no doubt flow in, but the challenge for Korea is to retain foreign professionals. As a homogeneous society, this is not easy as the

18There has been another development. Declining fertility rates, rural–urban migration, and the unattractiveness of rural life has created shortages of brides for Korean men. Thus, female marriage migrants from Vietnam and the Philippines have added to the inflows of migrants (see Ahn, 2015).

19OECD International Migration Database.
experience of Japan illustrates (D’Costa, 2013). Similar to Japan, Korea is faced with the social challenges of absorbing, integrating, and politically managing foreigners in relatively unskilled 3-D (dirty, dangerous, and demeaning) jobs (Ha, 2015). At the same time, the “global war on talent” also pits Korea against other innovation-driven countries in attracting high-skilled professionals, including students for the continued expansion of globally competitive high technology sectors. As it has been shown, foreign professionals find the work and social environment difficult, just as working-class migrants and marriage migrants find adjusting to and assimilating in Korean society demanding (see D’Costa, 2015). Consistent with Korea’s prosperity, creating a multicultural society will be an important goal to aspire to. Efforts are already underway, but challenges for such a transition in an ethnically homogeneous society understandably remain.

3.2 | Sharing prosperity in a post-development society

South Korea’s economic maturity and social transformation has compelled it to engage with the world more broadly and Asia in particular just as Asia has drawn Korea in its embrace either as markets, source for raw materials, or contributing workers and brides for the Korean economy and ageing society. This was already visible when President Kim Young-sam (1992–1998) introduced his segyewha (globalization) policy as a response to Korea’s overt dependence on Japanese technology. Consequently, research and development and outward FDI through relaxation of foreign exchange controls were encouraged (Y.-I. Lee, 2012: 163–167, Nam & D’Costa, 2015). Here, I outline some key areas of state intervention that will broadly align Korean policies with its external engagement and reduce some of the social instability inherent in its post-development circumstances. It will also help to wrest control from the chaebols and facilitate transition to a new kind of state–business partnership that is more society-centric.

First, similar to other countries, Korea’s future recovery from the US-led global recession since 2008 is not yet complete. Growth projections of 2.4% during 2018 to 2030 are not encouraging (OECD, 2014b). In this slow growth scenario, one can expect slow growing employment and greater inequality in income and wealth. The rapidly ageing population, narrowing of technological gap with Korea by its competitors, and declining rate of savings and investments have compounded the challenges. These are problems not unique to Korea but can be also found in the mature OECD group. Clearly, new growth engines have to be fostered everywhere through innovation and nurturing new sectors. Consequently, the political partnership must be reversed. The government has already identified 17 new growth sectors under three broad categories: green technology industries, high-value industrial convergence technologies, and high value-added services (see OECD, 2014c: 47). Consequently, Korea has moved quickly into areas such as “green” technologies and high-value services such as cultural industries (J. Lee, 2015). Both of these have been targeted for exports.

However, there are still some weak areas that need addressing. Korea’s S&T Innovation Capacity in 2012 was ranked ninth among 30 OECD countries, with high marks for innovation activities and resources but quite low in innovation environment (National Science and Technology Commission, 2012). Innovation environment consists of a complex ecosystem of institutional arrangements that encourage creativity, openness, and acknowledgement of failure. However, generically, Korea’s hierarchical social system, while well suited to authority-based decision making-structure, is in practice a closed system that limits dissent and consultative interaction in which information and ideas are exchanged. When such hierarchical traits are carried over to organizations such as chaebols, critical decision-making could be swift but also
runs the risk of unaccountability when appropriate checks and balances, often established through feedback mechanisms, are weak or absent. This is both evident in Korea’s success in entering international telecommunications markets compared with Japan and in industrial accidents such as the recent sinking of the Sewol ferry where accountability of business was seen as weak. For innovations to emerge in Korea, open systems are necessary to obtain the best information through knowledge sharing arrangements within and without organizations.

Second by better mobilization of underutilized labour such as women and the elderly, Korea could partly address the labour shortage. Currently, female participation rate is considerably lower than the OECD average. Korea’s female participation rate was 59% compared with the OECD average of 64% and G7 average of 69% (OECD). Gradually phasing out the mandatory retirement system could retain senior workers, whereas better vocational education could reduce youth unemployment. There are other areas such as affordable childcare service, full-day schooling option, better benefits for parental and maternity leave, and encouragement of flexible employment that ought to be part of a multipronged intervention in favour women.

Third, although the abuse of foreign workers by employers has been partly addressed (K.-C. Park & Lee, 2012), additional policies are needed to facilitate longer stay of foreign workers. Thus far, foreign population (in stock terms) in Korea remains small, 1.9% of total population, which is only marginally above Japan’s 1.6% (OECD, 2012). Although only a small share of this foreign population is likely to be highly skilled professionals, who need to be enticed and retained in Korea, a substantial shortfall of workers is experienced by small and medium enterprises (SMEs) due to the monopsony power of large firms in recruiting workers. The long-term affiliations of foreign workers with SMEs through changes in visa policies are expected to assist Korean SMEs to cope with international competition on the labour front. As part of its domestic reforms, Korean firms both at home and abroad have much to learn about balancing the need to ensure workers’ rights. This includes extending fair treatment to foreign workers and make Korea attractive to migrants by conforming to the highest standards of human rights.

Fourth, Korea has rightly targeted high value-added global services such as healthcare, education services, finance, content and software, MICE (meeting, incentives, conventions, and events), and tourism industry. Korea has the added advantage of geographical proximity to more than 40 Asian cities within a 2-hr flight. Hence, Korea could export a wide range of services, including education, medical care, legal services, healthcare, and the digital content industry (Byun et al., 2012). The supply of foreign human capital will be critical to this endeavour. This means businesses, large and small, must work toward attracting and retaining international workers.

Fifth, Korea needs to share its prosperity better. Inequality between chaebols and SMEs and between regular and informal workers is widely acknowledged. Both productivity and wages in SMEs lag substantially lag behind large firms (Ministry of Employment and Labor, 2012). The OECD reported that wages in SMEs were half the level of large firms (OECD, 2014b: 85). Only about half of the nonregular workers are covered by the various national pension, health, and employment insurance schemes compared with 95% of regular workers. The challenge for Korea is how to support SMEs and their nonregular workers with jobs and other forms of security without undermining fiscal discipline and flexibility. Taming the nexus between chaebols and banks must be weakened by reducing loans designed to increase chaebol family control.

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20OECD, “LFS by Sex and Age – Indicators: Labor Force Participation Rate,” OECD.StatExtracts. http://stats.oecd.org/Index.aspx?DatasetCode=LFS_SEXAGE_1_R#, Accessed 02/15/2013.

21OECD, “LFS by Sex and Age – Indicators: Labor Force Participation Rate,” OECD.StatExtracts. http://stats.oecd.org/Index.aspx?DatasetCode=LFS_SEXAGE_1_R#, Accessed 02/15/2013.
and avoiding high debt equity ratio and non-performing assets. The byzantine in-group ownership structure makes chaebol organizations impenetrable and thus structurally powerful. Hence, curtailing family management control, separating chaebol-controlled financial institutions from commerce, monitoring intersubsidiary business deals to prevent unfair practices, and improving corporate governance to allow nonfamily members to participate more effectively are some of the measures needed to break the power of big business. Korea’s corporate governance ranking in Asia was the lowest among eight major economies (China was not included) and was placed eighth after India (Asia Corporate Governance Association, 2012). Finally, imposing severe penalties on businesses for theft and accounting fraud is key areas of intervention.

One final development challenge for Korea, that has been also recognized globally, is creeping inequality. Korea has been relatively egalitarian and matches the OECD average. However, dualism in labour markets as seen between the division of chaebols and SMEs, the different labour market participation by gender, and the narrow coverage of social safety net have been responsible for increasing inequality (OECD, 2014b: 103–106). The rise of chaebols and the 1997 financial crisis leading to mass layoffs and the increase in nonregular workers has contributed to worsening income distribution. Not only the wage gap between large exporting firms and domestic demand-oriented SMEs is widening, employment share in large firms is also declining, whereas growth in self-employment is exacerbating inequality. The share of middle class was estimated to have dropped from 70% in 2003 to 64% in 2011 (Won et al., 2013). As is true for other places, Korea is subject to competition emanating from globalization, skill-biased technological change, and sluggish economic growth.

So, what can Korea do? It needs to increase social spending, which is less than half the OECD average. Also, enhancing pension, medical, reducing college tuition, providing free preschool education, better support for afterschool day care, and social security will consolidate the drive toward sharing prosperity. The dilemma of course is funding without increasing the tax burden. Clearing the underground economy, trimming down tax deductions for high-income earners, and the reining in of the political and financial power of big business and their cronies in the government are some options to increase public pension spending and help the middle class.

4 | CONCLUSION

This paper argued that Korea because of capitalist maturity is facing a number of challenges. This capitalist maturity was a result of the successful development partnership between the state and big business, with the former at the helm. However, with the gradual but inevitable shift in the political economic environment, the development partnership has been transformed into a political one. Here, big businesses are in-charge, reversing their dependence on the state to a dependence of the political parties (that serve the state) on the chaebols. In this shift, the consolidation of democracy has been a catalyst to both reversing the development partnership to a political one and acted as a brake on the excesses of business and the state periodically. The political marriage is now broken but has not been replaced yet because Korean businesses still play a vital role in the economy through their investment strategies at home and abroad. In this

22Statistics Korea, Income Distribution (Gini Coefficient) Based on Disposable Income, www.index.go.kr/egams/stts/jsp/potal/stts/PO_STTS_IdxMain.jsp?idx_cd=1407, Accessed 02/17/2013 (in Korean), and OECD, Income Distribution – Inequality, OECD.StatExtracts, www.index.go.kr/egams/stts/jsp/potal/stts/PO_STTS_IdxMain.jsp?idx_cd=1407, Accessed 02/17/2013.
sense, businesses have adjusted to capitalist maturity quite well. On the home front, however, the post-development conundrum remains, and a host of domestic reforms is necessary to manage post-prosperity demands.

In a world of soft growth, finding new growth engines will not be easy nor a quick solution found to cope with rapid ageing and increased social spending. However, reining in chaebols by sharing their prosperity would be important. The government needs to address labour market dualism and creeping inequality between chaebols and SMEs and between various segmented labour markets. There are some hopeful signs. The ouster of former President Park Gyun-hye for “bribery, coercion and abuse of power for offering government favours to tycoons and prosecutors” (South China Morning Post, 2018), and the jailing of Samsung’s Vice Chair for offering bribes to former President Park not only illustrates how low corruption had sunk but also how Koreans are ready to redress their democracy that has gone awry. These interventions, both policy and political, including the sustainability of Korean business abroad could restore the balance between the role of the state and big capital in neoliberal times. It would certainly ensure a more people-centred economy and polity.

ORCID

Anthony P. D’Costa http://orcid.org/0000-0002-7235-1876

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