The Jus Semper Global Alliance
Living Wages North and South
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South Korea's tortuous road towards a living-wage ethos

South Korea followed a tortuous yet keenly distinctive road to achieve sustained growth and drastically reduce inequality. What did it do differently from other countries? It eschewed the now discredited mantra of the Washington Consensus, to grow with a good degree of equity. Yet, the market's unrelenting necessity for sheer consumerism is now generating such inequality that it demands from Korea and everywhere the urgent need of replacing it for being absolutely unsustainable.

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After the Korean War, South Korea (hereafter Korea) was an extremely poor country. It is also a resource scarce nation given that most natural resources are in the North. Yet almost immediately after the war Korea immersed itself in a national effort to carve a developmental path of very fast and sustained economic growth and it succeeded. From a country with the vast majority of the population in a state of dire poverty, with a GDP per capita of $155 in 1960, and with a shortage of food and heavily dependent on aid,[1] it is now one of very few economies that has managed to escape the never ending stage of a developing economy, in the context of a sheer marketocratic paradigm controlled by the international institutional investors. In this way, Korea increased its GDP per capita to $608 in 1975 and to $22,590 in 2012. Its Gini index is well within the range of those of developed countries at 31 and clearly better than the Gini index for the US at 38[2]. The percent of population below the national poverty line was 16,5% in 2011 versus 15,1% in the US in 2010.[3] Its production-line hourly direct pay wages have climbed from $0,61 in 1975 to $17,25 in 2007, in purchasing power parity terms(PPP).[4] All of these are remarkable achievements.

1 Seung-Hun Chun (19 April 2010). "Strategy for Industrial Development and Growth of Major Industries in Korea" (http://www.kds.re.kr/pds/102/MRDA_2010_4.pdf). Korea Institute for Development Strategy. Retrieved 31 July 2012.
2 OECD Extracts: Income distribution and poverty, Gini at disposable income post taxes and transfers for 2010 (Data extracted on 10 Jul 2013).
3 CIA, The World Fact Book, consulted on 10 july 2013
4 Own PPP calculations based on World Bank indicators and US Department of Labour, Bureau of Labour Statistics, International Comparison of Hourly Compensation Costs, March 2011 and December 2012.

As a result, in 2011 Korea was the 12th largest economy in the world in GNI (PPP) terms, with a well developed and very competitive industrial sector that, from inception, focused on becoming a manufacturing export powerhouse. From traditional heavy industry, such as shipbuilding and automotive, to chemicals and high-tech electronics, including semi-conductors, and consumer electronics, Korea is now one of the most competitive economies in the now globalised market system. It even leads in important industrial sectors, such as being the leader in container ships and semiconductors as well as having the highest internet penetration, with Seoul being the most wired city in the world.

On the other hand, most countries, particularly in Iberian America, the majority of which embarked on a rapid industrialisation effort from the start of the post-WWII era, dramatically stand out in contrast for their less than mediocre results. These include those who, from the 1980s, have been regarded –by the metropolises of the system– as the best pupils of the Washington Consensus, particularly and most prominently: Chile, Mexico and Brazil. In contrast to Korea, they have failed miserably in reducing their sheer inequality and in lifting the quality of life of the vast majority of their populations to the standard of developed economies.

What did Korea do differently? While both Korea and Iberian America implemented a strategy of import substitution, the former managed to grow with equity, allowing for the emergence of a dignified quality of life for the majority of its population, whereas Iberian America simply adapted its traditional plutocratic system of large landholdings to the new times, with no interest whatsoever in pulling out the vast majority of their populations from their traditional misery. They renewed their customary system of exploitation, transferring it from the countryside to the urban centres in a fashion that closely resembles in many ways the same trends that took place from the countryside to the cities of England´s Industrial Revolution in the XIX century.

Korea, however, consistently followed a path that made its top national economic interest to become competitive in international markets and develop economically in a way that allow its people to become predominantly a middle class society. To achieve this the State placed itself always in the driving seat of the economy, setting the goals, priorities and strategies with policies aimed at achieving full employment. To accomplish this, Korea unrelentingly refused to cede control of its economy to foreign capital, gradually opening to foreign competition only the economic sectors that were already successfully competing globally and keeping zealously protected those sectors that were not ready to compete.

The State systematically provided its full support to the dynastic family-controlled business conglomerates, the chaebols (or jaebols); first to fend foreign competition off and then to support them in their growing business presence overseas. As for foreign direct investment, Korea maintained a tight grip on investment inflows, making it a small part of its economic architecture. Thus, for the foreign companies that were allowed to establish a presence in Korea, Koreans made sure that they invested as joint ventures with management control held by Koreans. A paradigmatic case is the automotive industry. From inception, Koreans never surrender management control and followed an import substitution path, which gradually developed a domestic supply chain that became competitive enough to begin to export successfully with their own brands. They followed a fervent nationalistic strategy with a clear focus on becoming an export oriented world class player –retaining management control, acquiring product development capabilities and increasingly investing in research and development. In contrast, for example, Brazilian and Mexican automotive plants were simply overseas plants. They did put in place, for a while, norms requiring local content of more than 50%. Yet the plants were in most cases fully owned and controlled by foreign multinationals.

Furthermore, a central element in Korea´s development model was to develop a social safety net. Korea provided maximum support to its educational system and developed a basic health system. They wanted to develop an adequately educated, highly skilled and healthy workforce. From inception, at the start of the 1960s, Korea´s literacy rate was already at 90%.[5] Some assessments describe it as "Growth with Equity", a quest for economic development with good human development.[6] Korea had a long-term vision of its development, and it is likely that it was influenced by the Confucian culture proper of East Asia, of communal solidarity, which emphasises the primacy of the group over the individual, strong education, thrift and hard work with relatively equitable income distribution. Iberian America, in contrast, inherited the western tradition –established by its colonial masters– of the primacy of individualism with a lack of a long-term vision for development that would enable it to set a clear path

5 Loren Goldner, The Korean Working Class: From Mass Strike to Casualization and Retreat, 1987-2008
6 Kevin Watkins, Economic Growth with Equity, lessons from East Asia, Oxfam Publications, 1998.

in economic and social policy; a void that exposes the evident absence of interest from the part of Iberian America´s elites to grow with equity, to lift the majority out poverty because it makes the most sense both economically and socially. Thus, thoroughly immersed in their historically quasi-feudal system of human exploitation, the elites have shown very little political will to abandon such paradigm. It is the very model that has enriched them to the point of having dozens of individuals in the Forbes list of the wealthiest people, including for many years the richest person in the world, whilst also ranking consistently as societies with the highest levels of inequality.

Korea's financial architecture also enabled it to fare much better than Iberian America the financial crises that ensued at the end of last century. Although relaxation in the controls used to monitor private spending, mismanagement of the banking system and a clear sort of crony capitalism that induced a moral hazard, provoked overspending that put many of the chaebols in jeopardy of surviving, Korea was in far better control of its economy than Iberian American countries. First, it had balanced budgets and, even more importantly, it had enjoyed low inflation. This was exactly the opposite of Iberian America, which for many years suffered rampant inflation and consistently ran budget deficits. Moreover, consistent with its past development strategy, Korea sought to adhere to the crisis-rescue directives of the IMF –which customarily demanded trade liberalisation, privatisation and the reduction of the public matter– as a temporary phenomenon, but not as a radical change of paradigm from a government-led economic policy to the full embracement of neoliberal globalisation. Instead, Korea has sought to create what some authors have called the "Koreanisation" of globalisation, which prioritises overseas direct investment (ODI) over FDI.[7]

Korea's path to development exposes two underlying premises. First, contrary to conventional wisdom in the current neoliberal ethos, economic policy in a capitalistic society –if it aspires to be minimally democratic and, thus, to provide a minimum degree of social justice– needs a high degree of a very visible and permanent hand from the State to keep in check the inherent excesses of capitalism that cyclically trigger imbalances and the ensuing crises. If there is no active State in the driver's seat of the economy, then no economic policy could exist. The very visible hand of the State is a sine qua non condition for the existence of economic policy. To be sure, the neoliberal mantra advocates precisely the opposite: the lack of economic policy so that everything is left to the capriciousness of the owners of the so-called free market and their speculative instincts.

The second premise is that even in the successful case of Korea, or of any capitalistic society, its paradigm is not sustainable whatsoever, for the simple reason that it is physically unsustainable in this planet. Capitalism demands the unrelenting increase of consumption, and infinite consumption of resources is not possible in a planet with finite resources. This is an axiomatic fact.

Notwithstanding the above, many elements have compounded in explaining Korea's economic and human success in transforming its country from a poor agrarian society to a leading economy in the current capitalistic ethos. Yet, one overriding factor, which is a sine qua non condition for the success of Korea or any country is the phenomenal growth of real wages. Indeed, the corresponding increase in Korea´s labour share of income, empowered Koreans to dramatically increase their quality of life. This concrete element is largely responsible for the transformation of Korea into a middle class society. This has produced a dynamic domestic market that, as a byproduct, has reduced meaningfully its almost complete dependency on exports. This is the most striking contrast with practically the rest of the world, which in lieu has bought the bogus neoliberal mantra of the trickle-down effect. In direct divergence with the supply-side vision of neoliberalism, Korea has sailed the very troubled waters of contemporary capitalism with a demand-side scheme, that even after the strong pressure to fully open its economy, it still managed to provide relatively living wages to most of its workers. This is truly an exception to the norm, given that capitalism in general and neoliberalism in particular are not designed whatsoever to allow social justice. The two concepts constitute a clear oxymoron, for capitalism is designed exclusively for the reproduction and accumulation of shareholder value at the expense of anything else. There are isolated recent cases, such as Brazil's "minimum wage recovery act," that are attempting to mitigate the worst effects of neoliberal globalisation by gradually increasing labour´s share of income. However, in stark contrast with Korea, this is too little and especially too late to transform its society without a paradigmatic change that replaces capitalism.

Quite possibly, in a non totally conscious and deliberate manner, Korea´s development path developed its market economy by balancing it with a significant degree of social policies that put in check the excesses of capitalism and, contrary to the general trend, have put people and

7 You-il Lee, South Korea's Meandering Path to Globalisation in the late Twentieth Century, Asian Studies Review, September 2010, vol. 34.

planet over the market by increasing its workers' share of income, education and health. To this effect, the systematic struggle of Korean workers, both during the autocratic and the so-called democratic era, conspicuously stands out as the critical element that tortuously but successfully forced the political and business oligarchy to yield ground for the materialisation of an ethos where the labour's share of income consistently increased. In the manufacturing sector, in particular, real wages showed a sustained growth until the Asian crisis at the end of last century. This pivotal event, combined with Korea's protectionist economic policy and its social policy to provide access to the available productive assets to the vast majority of its population, produced Korea's growth with equity. Unlike most developing countries and, increasingly, many mature economies, Korea did not seek to concentrate wealth in the 1% at the expense of the 99%. In stark contrast, if we check the state of wages in Iberian America, we can clearly observe a constant trend of a loss of real wages, losing in the last three decades as much as two-thirds of their value, with Mexico possibly exhibiting the worst case, as a result of deliberate policies seeking the drastic depreciation of real wages on behalf of shareholder value.

However, things in Korea do not look as rosy now and, since 2000, there is increasing evidence of a growing gap between the so-called regular and non-regular workers. There is a labour polarisation that has deteriorated the labour conditions of workers in medium and small businesses and among self-employed workers, stagnating wages and increasing poverty rates. Competition from Darwinian capitalism players in the global market has certainly pushed Korea's large enterprises to adopt many of the same practices of outsourcing that directly increases job instability and that pushes many workers to join the ranks of Guy Standing´s "precariat",[8] a rather evident global trend in both so-called developed and developing nations.

This paper is divided in three parts. The first examines the development path followed by Korea since the end of its war, with a relative emphasis on the travails of its labour force to achieve a dignified share of the income generated. The second part addresses the question of what Korea has done differently from other developing countries, particularly in Iberian America and with special emphasis on Mexico, given the dramatic differences in economic policies and considering that Mexico was far ahead of Korea half a century ago. The final part assesses in particular the trend followed by the labour compensations in the manufacturing sector for production-line workers from 1975 to 2009 and for all Koreans employed in the manufacturing sector from 1996 to 2012, in the context of our The Living Wages North and South Initiative (TLWNSI). Given that in this context Korea has been able to drastically reduce its living-wage gap with the US, this paper also provides a projection of the time required for Korea to achieve full living-wage equalisation, if real wages are increased at the annual rates of 4% under concrete assumptions.

It goes without saying that TLWNSI is conceived in the context of the current and inherently unsustainable market-driven paradigm. It is an idea developed to expose the prevalent labour exploitation and to advocate a concrete methodology to address this issue in a practical way. It is a concept valid only as long as most governments in the world continue to act as market agents on behalf of the international institutional investors instead of as public servants in pursuit of the welfare of their peoples. Consequently, the future of Korea´s welfare as well as that of all countries, requires, whether we like it or not, a radical change of paradigm. In the new paradigm, classic indicators such as the GDP economic growth cease to have meaning and are replaced by indicators of human development with a stationary economy with a good quality of life but clearly lacking the sheer consumerism of today. It is the paradigm for the welfare of people and planet and NOT the market. It is a paradigm that will only be possible if we replace the current mockery of representative democracy, a euphemism for marketocracy, with an ethos of true democracy for the long-term sustainability of people and planet, and NOT the market.

8 Guy Standing: The Precariat – The New Dangerous Class (Bloomsbury Academic, London, 2011).

PART I

❖ *Economic and Social Policy Path*

After Korea's war, both North and South were devastated but South Korea was even less industrialised than the North. In the late 1950s, Korea´s average income was lower than in Zaire and Sudan.[9] In 1954, per capita GDP was only a meagre $70.[10] The South had a brief stint of a few months with an elected parliamentary government in 1960, to then spend almost three decades under military rule until 1987. Yet, during this period Korea embarked on a path of export-oriented industrialisation that has been clearly successful in making it a global player in many important industrial sectors.

➡Economic policy during authoritarian rule

Korea´s development saga began with five-year economic plans that implemented a national industrial policy that initially followed a labour-intensive strategy seeking to provide full employment at the fastest possible rate. It was an inward-looking strategy permanently led by the State seeking to achieve industrialisation with big emphasis on exports and strong protectionism of its incipient domestic market and its pivotal players, the chaebols, the family dynasties that have become kingdoms within a nation, with their origins found in the few small industrialists that obtained the assets or had relations with Japanese companies during Japan's intervention period. First, Korea exported a few agricultural commodities to then move to exporting manufacturing products; first mostly assembled, with little value added, but systematically pursuing the increase of its local content and value added with many copycat tactics that have paid off handsomely. Its rapid industrialisation strategy put an emphasis on the reinvesting of proceeds into further industrialisation. Economic policy prioritised supporting the growth of the chaebols that gradually evolved into more than thirty big industrial conglomerates. They were typically controlled by elite families that have enjoyed a cozy environment of sheer crony capitalism created by the State.[11] This set up produced a very unlevel playing field for small and medium size companies and their workers. These conglomerates, however, have been at the core of Korea´s success in the global arena, becoming multinational conglomerates that have become leading players in many sectors, including the cutting-edge sectors of information and communications technology (ICT).

The initial strategy was to export based on the evident comparative advantage of very low wages. The first five-year plan of 1962 put in place the foundations of the country´s export-oriented manufacturing by providing the social (education and healthcare) and economic infrastructure for the successful materialisation of the export plan, which included both import-substitution and export-driven industrialisation.[12] Labour-intensive light industries gradually moved into heavier industries such as chemicals and non-ferrous metals. It was a deliberate move from labour intensive to capital intensive, which exponentially added the value added of the products and the value of labour from low skill to high skill.

After the war Korea was heavily dependent on foreign aid, mostly from the US. By the early 1960s, US aid was in decline. Thus, one of the goals of the plan was to end this dependency and become economically autonomous. This goal enjoyed the benefit of US geopolitical interests, given that Korea was at the forefront of the cold war. As with the Marshall Plan in Europe, the development of successful capitalist economies in the Far East was essential for the US to keep communism in check in East Asia. Thus Korea, as with Japan, enjoyed the financial and market access support of the US to develop a successful and competitive economy. This made the US tolerate a *dirigiste State* political economy that otherwise it would not tolerate[13] and facilitate access to North American markets under clearly asymmetric conditions.[14]

During the more than three decades that Korea lived under authoritarian regimes, the regime that initiated Korea's successful industrialisation, the result of a coup d'état in 1961, was the Park Chung-Hee regime, that ruled until his assassination in 1979. Park implemented a rather nationalist inward-looking development scheme with what some regard

9 Kevin Watkins, Economic Growth with Equity, lessons from East Asia, Oxfam Publications, 1998.
10 Heo, Uk; Jeon, Houngcheul; Kim, Hayam; and Kim, Okjin, "The Political Economy of South Korea: Economic Growth, Democratization, and Financial Crisis," Maryland Series in Contemporary Asian Studies: Vol. 2008: No. 2, Article 1.
11 David C. Kang, Crony Capitalism, Corruption and Development in South Korea and the Philippines, Cambridge University Press, New York, 2002.
12 Heo, Uk; Jeon, Houngcheul; Kim, Hayam; and Kim, Okjin, "The Political Economy of South Korea: Economic Growth, Democratization, and Financial Crisis," Maryland Series in Contemporary Asian Studies: Vol. 2008: No. 2, Article 1..
13 Loren Goldner, The Korean Working Class: From Mass Strike to Casualization and Retreat, 1987-2008
14 Thomas Kalinowskia and Hyekyung Cho: Korea's Search for a Global Role between Hard Economic Interests and Soft Power, European Journal of Development Research (2012) 24, 242–260. doi:10.1057/ejdr.2012.7; published online 23 February 2012

as a schizophrenic[15] focus on exports; inward looking because it was staunchly protectionist and wary of foreign investment. Its economic policy clearly relied on the development of a strong industrial base –anchored on the Chaebols success– physical and social infrastructure, savings, reinvestments and a frenetically hard working culture. Some economists describe it as the statist approach or mixed economy approach also prevalent in Iberian America during the golden years of the Keynesian demand-side paradigm of the fifties, sixties and seventies. Economic policy considered it fundamental to control the banking system to control lending rates to increase savings and loans and to control exchange rates to keep the won competitive.[16] Thus, to control the financial sector, Korea's major banks were controlled by the State through stock purchases. Moreover, Park sought to legitimise his autocratic regime by developing a cozy relationship with the elite families that were developing the business conglomerates. He pursued a close collaboration with them. Providing the political economy conditions necessary for the successful growth of these families' business (protection from foreign competition, subsidies, preferential financing, favourable tax policies) was deemed essential to create a sense of sharing in their joint success and to ultimately receive the legitimacy required to remain in power.

The Park presidency ended with his assassination in 1979 and the replacement of another military regime, this time commanded by Chun Doo-hwan. Park's almost exclusive focus on growth and the oil's shock of the late seventies and early eighties sparked considerable inflationary pressures on the new government. Chun's focus was then aimed at prioritising the control of inflation and restructuring the economy. The government sought to stabilise prices to protect real wages and protect the competitiveness of Korean exports and imposed a tight control of fiscal policy, which also reduced deficits significantly. Concurrently, the government de-emphasised support of the chaebol exporting model to reduce its dependency on these business conglomerates and on the heavy chemical industries by cutting favourable tax policies and tightening credit, whilst it increased the State's share of resources allocated for small and medium size enterprises (SMEs).[17] Moreover, the government liquidated through acquisition or mergers more than sixty companies that were unable to deal effectively with the new international environment and that were losing money. As many scholars assert, the fact that the new government did not have the long-standing cosy and crony capitalism relationship with the chaebols' families followed by Park, enabled it to maintain the necessary independence to carry out its economic restructuring plan. Ultimately, Chun's economic strategy was successful and inflation was harnessed effectively.[18] This enabled Korea to achieve strong economic growth, which averaged a powerful 8,7% annual average GDP growth during Chun's 1981-1987 regime.[19]

➡Economic policy after authoritarian rule

In 1987, as a result of much social pressure, Korea initiated its transition towards the establishment of a representative democracy government. Roh Tae-woo was elected through popular vote, albeit he did not enjoy much popular support due to his military background and the tacit support of his predecessor. His government pursued a Keynesian political economy of equity by expanding and reinforcing the social welfare systems already in place. The government introduced a housing system, expanded the healthcare system to incorporate the lower income segments and established Korea's minimum-wage standard. He also opted to stay out of labour unions' activity, which sought to improve their labour entitlements. Such policy allowed workers to increase their wages very significantly between 1987 and 1992.[20] As could be expected, employers transferred part of the added cost of labour to consumers, which relatively increased inflation and reduced the competitiveness of Korean exports, which in turn resulted in a slight decrease in the average annual GDP growth, albeit still quite impressive at the rate of 8,3% between 1988 and 1992.[21]

At the end of 1992 Koreans directly elected Kim Young-sam as its first civilian president. He took the important precedent of applying the rule of law by bringing to trial Chun Doo-hwan and Roh Tae-woo for corruption and severe human rights violations. They were sentenced to life imprisonment and a 17-year sentence respectively. Economically, however, Kim's administration began to gradually deregulate the economy by adopting neoliberal policies. He sought to end, through increased transparency and accountability, the embedded corruption that provided favourable lending conditions to

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15 Danny M. Leipziger editor, Lessons from East Asia, University of Michigan Press, 2001.
16 Heo, Uk; Jeon, Houngcheul; Kim, Hayam; and Kim, Okjin, "The Political Economy of South Korea: Economic Growth, Democratization, and Financial Crisis," Maryland Series in Contemporary Asian Studies: Vol. 2008: No. 2, Article 1.
17 ibid.
18 ibid.
19 World Bank, Economic Indicators databank, as of November 2012.
20 Heo, Uk; Jeon, Houngcheul; Kim, Hayam; and Kim, Okjin, "The Political Economy of South Korea: Economic Growth, Democratization, and Financial Crisis," Maryland Series in Contemporary Asian Studies: Vol. 2008: No. 2, Article 1.
21 World Bank, Economic Indicators databank, as of November 2012.

chaebols in exchange for political campaign contributions and other favours. Yet, in line with the neoliberal mantra, he chose to distance the State from market intervention, and he liberalised foreign exchange and flexibilised foreign direct investment policies. In congruence with such policies, Kim sought to reform the labour ethos by liberalising management's labour practices to increase productivity at the expense of workers, but this reform encountered strong opposition and stalled in the National Assembly.[22]

➡Crisis management, economic policy and neoliberalism

Kim's pledge to fight crony capitalism notwithstanding, the ongoing cosy relationship between the chaebols and the political class played a major role in the crisis that ensued. In 1997 the gradual liberalisation of East Asia's economies, compounded by the resulting increased activity of international speculators, triggered the region's financial crisis. Asian currencies suffered an attack by foreign exchange speculators, and Korea was no exception. Korea's case was compounded by a combination of increased domestic and foreign debt and gross mismanagement of the banking system. As some scholars argue, the first push for neoliberal globalisation was quite unbalanced in favour of domestic capital, namely, the chaebols, which created excessive moral hazzard. The government liberalised the outflow of capital and the inflow of short-term debt, albeit long-term debt remained restricted. Yet, this was enough to trigger the crisis.[23] Domestically, despite the increased demand for accountability of lending practices, corruption induced lending by political directives. Banking common sense in lending practices was subordinated to the vested interest of the chaebols and their favourite politicians. Hence, the customary State-chaebols' cosy relationship and the deregulation of the financial sector made the demands to finance the chaebols' expansion of their overseas operations to be fulfilled with much flexibility. As casualties of these lending practices, some chaebols, such as Hanbo Iron and Stell and Sammi, went bankrupt in the early 2000s.[24]

The devaluation of the won, which ensued from currency speculation, compounded by the need to service substantial debt owed to foreign creditors, deeply aggravated the situation. In 1997 Korean banks had a foreign debt equivalent to 24% of GDP.[25] At the end of 1997, the debt-equity ratio of the 30 largest chaebols was 518%.[26] With their liabilities at five times their equity, the conglomerates' debt was clearly beyond their financial capacity to service it. In fact, almost all of Korea's fifty largest corporations were massively indebted and there were clear casualties.[27] Indeed, due to the extent of its liabilities, chaebol Daewoo was dismantled by the government in 1999,[28] leaving only a few much smaller business entities remaining today. The IMF was called to intervene and organise a bail out, which, as could be expected, came with the customary demands for full liberalisation in line with the recipe of the Washington Consensus,[29] and the State moved to implement such directives.

There is clear debate, however, on how Korea dealt with the international push to force full liberalisation. Some authors (You-il Lee and Wan-Soon Kim) argue that with the initial economic liberalisation of the Kim Young-sam government, Korea did not fully embrace the prescriptions of the Washington Consensus. In this view, Korea moved to apply what is called the *segyehwa*, which instead of integration to global neoliberalism, implies its Koreanisation or the emergence of Korea, Inc.[30] This view sees a gradual transition towards neoliberal globalisation through three phases: first with the reduction of the role of the State during the Kim Young-sam government (1993-1997); the second phase with the adoption of the IMF directives to be bailed out from the 1997 crisis; the third phase is viewed to have commenced with the actual signing of free trade agreements (FTAs), particularly with the start of the negotiations in 2007 of the FTA with the US. However, this view asserts that rather than fully embracing the Washington Consensus, Korea chose to adapt and cherry pick the policies that would allow it to benefit under a new global economic ethos, given the realisation that being a resource-scarce country Korea did not have the choice to remain an inward-looking economy. Yet, rather than

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22 Heo, Uk; Jeon, Houngcheul; Kim, Hayam; and Kim, Okjin, "The Political Economy of South Korea: Economic Growth, Democratization, and Financial Crisis," Maryland Series in Contemporary Asian Studies: Vol. 2008: No. 2, Article 1.
23 Thomas Kalinowskia and Hyekyung Cho: Korea's Search for a Global Role between Hard Economic Interests and Soft Power, European Journal of Development Research (2012) 24, 242–260. doi:10.1057/ejdr.2012.7; published online 23 February 2012
24 Jai S. Mah, Industrial Policy and Economic Development, Korea's experience, Journal of Economic Issues, Association for Evolutionary Economics, Vol 41, March 2007.
25 Heo, Uk; Jeon, Houngcheul; Kim, Hayam; and Kim, Okjin, "The Political Economy of South Korea: Economic Growth, Democratization, and Financial Crisis," Maryland Series in Contemporary Asian Studies: Vol. 2008: No. 2, Article 1.
26 Jai S. Mah, Industrial Policy and Economic Development, Korea's experience, Journal of Economic Issues, Association for Evolutionary Economics, Vol 41, March 2007.
27 Kevin Watkins, Economic Growth with Equity, lessons from East Asia, Oxfam Publications, 1998.
28 The Economist: South Korea, The death of Daewoo, 19 August, 1999.
29 John Williamson, What Washington Means by Policy Reform, Chapter 2 from Latin American Adjustment: How Much Has Happened? Edited by John Williamson, April 1990.
30 You-il Lee, South Korea's Meandering Path to Globalisation in the late Twentieth Century, Asian Studies Review, September 2010, vol. 34.

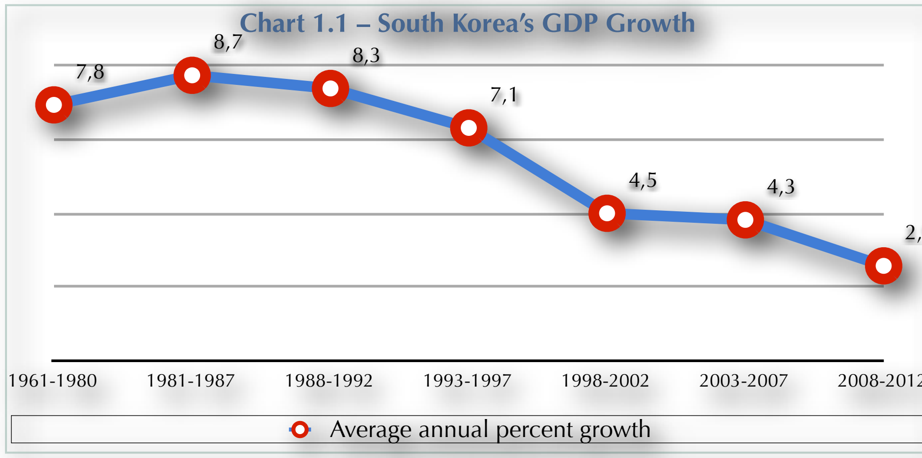
adopting neoliberal policies at face value, Korea tailored its economic framework and profit-maximisation strategies to the conditions of neoliberalism even before the crisis.[31] In this way, instead of continuing with an inward-looking focus, it shifted to an outward perspective of its economic forces. Thus, it is argued that Korea's gradual integration into the global economy must be considered as a temporary phenomenon where Korea's traditional nationalistic strategies were simply adapted to the new environment and not replaced. In a nutshell, the State moved from protecting its industrial conglomerates from foreign competition domestically to promoting, supporting and protecting their increasing presence overseas. This, however, was one of the major sources of the economic crisis due to the mismanagement of the borrowing spree used to finance the chaebols' overseas direct investment (ODI). Other scholars sharing a similar view explain it as the adaptation of the old Korean mercantilist development model into a successful global competition model, where Korea seeks to advance its economic interests with a direct presence abroad given its resource-scarce and export-dependency nature.[32] In this way, Korea seeks to pursue self-help strategies and bilateral cooperation instead of putting much faith in international organisations controlled by the West. Consequently, Korea attempts to emulate the *realpolitik* of western powers without directly challenging the global governance –marketocratic– system.

The immediate task of the Kim Dae-jung government (1998-2003) was to push for the recovery of the economy. Korea managed to recover faster than expected as a result of using alternative financial sources –mostly through the liberalisation of foreign ownership of Korean equities– to rollover short-term corporate debt, weakening labour entitlements and unit labour costs and pushing for aggregate demand through the promotion of increased consumerism through credit cards. As it traditionally happens during the system's recurring crisis, workers are the first to pay as job insecurity and wage cuts are the measures of first recourse. Indeed, between 1997 and 2000, unit labour costs dropped drastically by 28% in real terms. Unemployment jumped to 8,6% by early 1999. Permanent jobs dropped to 47,5% of total workforce in May 1999 from 53,1% twelve months prior. Hence, the overall labour share of income fell from 53,4% in 1997 to 49,4% in 2000.[33] These actions plus the materialisation of a household consumption boom, following a stock market boom, made GDP grow explosively to 9,5% in 1999.[34] Such frenzy, however, engendered 3,2 million Koreans with bad credit ratings, which in turn produced a drop in private consumption during 2003 and 2004.[35]

Kim Dae-jung's government in the immediate post financial crisis showed a strong commitment to the directives for economic liberalisation. Along with a set of monetarist policies such as high interest rates, tax increases and deficit reduction-budget cutting measures, the State implemented a package of radical laissez-faire ethos structural reforms. Namely, a series of banking-financial regulatory reforms –including the privatisation of the banking system, corporate reform of the chaebol conglomerates –where weak links of some chaebols were merged in a swap with strong links of the same line of business of other chaebols, labour market liberalisation reforms to liberalise layoffs and increase job insecurity, and, to be sure, the compulsory deregulation and promotion of foreign direct investment. The Kim Dae-jung government as well as the subsequent Roh Moo-hyun government (2003-2008) were fervent followers of neoliberal globalisation. Regarded by some scholars as "master students" of neoliberalism,[36] both governments vehemently pursued the rule of a marketocratic ethos in Korea. They did, however, learn from past experience and made a point of increasing international currency reserves. In the third-quarter of 1997 Korea's short-term debt was equivalent to 323% of its international currency reserves, which subsequently by November were exhausted. By mid 1999, when the currency market was already stabilised, the currency reserves reached $62 billion.[37] By 2006, they had reached $206 billion,[38] and by mid 2013 they were at $326 billion, the sixth largest in the world.[39] Yet, since then the economy has not grown as fast as it used to. Between 1981 and 1987, GDP grew an average of 8,7% and between 1988 and 1992 it did by 8,3%. Then, between 1993 and 1997, just before the crisis unfolded, the average GDP was 7,1%, to then drop, bearing

31 ibid.
32 Thomas Kalinowskia and Hyekyung Cho: Korea's Search for a Global Role between Hard Economic Interests and Soft Power, European Journal of Development Research (2012) 24, 242–260. doi:10.1057/ejdr.2012.7; published online 23 February 2012.
33 Jahyeong Koo and Sherry L. Kiser, Recovery from a Financial Crisis: The Case of South Korea, Economic and Financial Review, Fourth Quarter 2001, Federal Reserve Bank of Dallas.
34 World Bank, Economic Indicators databank, as of November 2012.
35 Heo, Uk; Jeon, Houngcheul; Kim, Hayam; and Kim, Okjin, "The Political Economy of South Korea: Economic Growth, Democratization, and Financial Crisis," Maryland Series in Contemporary Asian Studies: Vol. 2008: No. 2, Article 1.
36 Thomas Kalinowskia and Hyekyung Cho: Korea's Search for a Global Role between Hard Economic Interests and Soft Power, European Journal of Development Research (2012) 24, 242–260. doi:10.1057/ejdr.2012.7; published online 23 February 2012.
37 Thomas Kalinowskia and Hyekyung Cho, The Political Economy of Financial Liberalization in South Korea: State, Big Business, andForeign Investors, Asian Survey, Vol. 49, No. 2 (March/April 2009), University of California Press.
38 Heo, Uk; Jeon, Houngcheul; Kim, Hayam; and Kim, Okjin, "The Political Economy of South Korea: Economic Growth, Democratization, and Financial Crisis," Maryland Series in Contemporary Asian Studies: Vol. 2008: No. 2, Article 1.
39 The Economist, consulted online, July 2013.

the blunt effect of the 1997 crisis, to 4,5% for the 1998-2002 period of Kim Dae-jung –including an actual drop of -6,9% in 1998. Subsequently, the average annual GDP during Roh's 2003-2008 government was only 4,3%.[40] The credit card boom that left millions of Koreans with bad credit ratings had a big weight on such performance, rendering GDP growth of 2,8%, 4,6% and 4% annually between 2003 and 2005. This has not improved since the latest global crisis that unfolded in 2008, given that the average GDP growth between 2008 and 2012 dropped even further, to an unheard rate of 2,9% for Korea, which includes a GDP of 0,32% in 2009.[41] Chart 1.1 illustrates the impressive economic growth since the 1960s until the Asian crisis, to then being unable to sustain the same pace once the economy was gradually opened in line with the neoliberal mantra and the whims of the market with its recurrent crisis cycles.



It merits to remark with special emphasis that –as part of the recovery once currency markets had been stabilised– there was considerable disagreement as to the implementation of the neoliberal structural reforms. Policy makers favoured pro-cyclical policies; namely the customary recessionary policies of high-interest, tax hikes and tight public spending. On the other hand, the private sector, led by the chaebols, argued that the economy needed counter-cyclical measures that would support the resumption of economic growth to the levels prevailing before the crisis. The argument being that structural reforms carried out before the return of strong economic growth had been consolidated would undermine the efforts to resume growth adequately and depress the economy instead. Powerful political pressure to avoid recessionary measures that would jeopardise the return of strong economic growth made the IMF concede the unusual, unorthodox use of counter-cyclical policies, meaning Keynesian demand-side policies in 1998.[42] The result was a spectacular recovery with growth of 9,5% and 8,5% for 1999 and 2000 respectively. A fact that provides hard evidence disputing the virtues of neoliberal structural reforms, which, furthermore, becomes all the more dramatic when we observe the ravages that such reforms are causing in the European Union.

Nonetheless, Korea's economic initial liberalisation accelerated after the crisis with the structural reforms dictated by the IMF and continued throughout Roh's government period. His government pursued further financial liberalisation, and structural reform of the industrial sector, including prominently both the chaebols and labour unions, and privatisation. Financial liberalisation was far more thorough, however, than industrial liberalisation due to staunch political resistance. Capital markets were liberalised to a large extent, leaving only some safeguards to protect the won from overseas trading by non residents. The Financial Investment Services and Capital Market Act was proposed by the Roh government in 2006 and came into force in 2009.[43] The act is considered to be comparable to the UK's "big bang" or to the repeal of the US Glass-Steagall Act.[44] The former refers to the sudden deregulation of financial markets in the UK by Thatcher's government in 1986. The latter refers to the 1933 Banking Act which separated commercial banking from investment banking as a direct reaction to the root causes of the 1929 crash. Nonetheless the lobbies of the marketocratic system moved in the US Congress to repeal it in 1999 with the full support of Clinton's Government. Its resulting financial ethos is considered to have played a fundamental role in the ensuing global financial crisis of 2007. The similarities of the financial structural reforms implemented in Korea with these reforms are considered to have moved Korea's financial system much closer to the Anglo-US model than to the East Asian (Japanese) model. In contrast, the industrial sector and labour markets were not reformed as originally envisioned. There were strong political dynamics that resisted full market liberalisation. Labour unions accepted the legalisation of layoffs in return for the consolidation of their political power.

40 World Bank, Economic Indicators databank, as of July 2013.
41 ibid.
42 Yong-Chool Ha and Wang Hwi Lee, The Politics of Economic Reform in South Korea – Crony Capitalism after Ten Years, Asian Survey, Vol. 47, Issue 6, 2007, University of California Press.
43 ibid.
44 Financial Services sector in South Korea, UK Trade and Investment, 1 November 2012

Yet, both the chaebols and the labour unions implicitly insisted on wanting the State to continue resolving their disputes as opposed to the "invisible" hand of the market. Moreover, political pressure made Roh's government balance its efforts to reduce labour strikes with new social safety net measures such as unemployment insurance and a basic livelihood system that significantly increased social expenditures.[45]

Lee Myung-bak's government (2008-2013) continued with the same pattern of conversion into supply-side liberalisation followed by his predecessors, only in a more fervent fashion. Indeed, perhaps attempting to depart from what, ironically, some consider a sort of centrist social democracy economic context followed by previous governments, Lee advocated an even more extreme brand of marketocratic dogma. At the start of his government, he bragged about increasing Korea's income per capita to $40.000. Yet, he soon was facing several crises: Roh Moo-hyun committed suicide in 2009 after he and his family were investigated for bribery and corruption. Lee's hard stance with North Korea risked making South Korea being marginalised from the six-party talk on denuclearisation.[46] Lastly, the global crisis that began in full force in 2008 hit Korea especially hard, putting the economy at a stand still, with virtually no GDP growth in 2009. Being a businessman with a 27-year career with Hyundai, Lee bet his cards on the deepening of structural reforms with an economic approach that was labelled the 747 vision or MBnomics (after the initials for his last name), which promised to deliver a 7% annual GDP growth, $40.000 per capita average income ($22.590 and $28.660 (PPP)[47] in 2012) and making Korea the seventh largest world economy.[48] However, due to the fact that Korea's economy is heavily dependent on exports in a global system where demand will continue to be depressed as long as the economy continues to be driven by the international financial institutional investors –who deliberately ignore the systemic contradictions of the global system– Korea is encountering a very hard time resuming the economic growth that it was used to. Indeed, after no growth in 2009, Korea recorded a 6,3% GDP growth in 2010, but then dropped again and averaged the aforementioned 2,9% for the 2008-2012 five-year period. Ironically, Lee's government was forced to face the reality of a marketocratic ethos and take immediate action with some Keynesian policies aimed at assuaging some of the social discontent with the reality of slow growth and a widening gap between the haves and have nots, particularly between the so-called regular and non-regular workers. He did, however, manage to get the free-trade agreements with the European Union and the US to be in force since 2011 and 2012, respectively. He also helped employers as much as he could in further eroding the rights of non-regular workers. A case in point was the extension from two to three years of the period at the end of which employers are forced to hire workers as regular workers.[49] The result was rising inequality, a deterioration of Korea's terms of trade and increasing unemployment among young Koreans. The won remained at some of the lowest rates in decades, particularly against the yen, to support exports, but these did not produce jobs or further productive investment.; rather, it produced greater discontent.[50] Lee's government, as has been the tradition of all Korean governments, carried a clear degree of corruption, and at the end of his administration he pardoned several of his political allies and business cronies who had already been convicted of bribery and other corruptions.

The new administration of Park Geun-Hye, the first female president and daughter of past dictator Park Chung-Hee, began her administration six months ago and is broadly expected to continue consolidating the liberalisation of Korea with its full integration into the global system. However, Park's inherited pro chaebol conservatism intends to be softened up with a number of economic policies aimed at addressing the growing discontent resulting from the drastic slow down in the growth of the economy, the continuous growth of job insecurity and the growing inequality that has been emerging since the beginning of the century. Namely, in the chaebols' front, Park has pledged to limit their power by increasing regulation of cross-holdings that allows control of conglomerates through a small amount of capital. Even more fundamental, she has demanded the conglomerates to prioritise job creation over shareholder value, which in principle challenges neoliberalism or any kind of capitalism. Additionally, Park is making use of Keynesian policies by expanding the Welfare State by increasing child-care benefits and by subsidising social security contributions and university tuition fees for the poor.[51]

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45 Yong-Chool Ha and Wang Hwi Lee, The Politics of Economic Reform in South Korea – Crony Capitalism after Ten Years, Asian Survey, Vol. 47, Issue 6, 2007, University of California Press.
46 Philippe Pons, South Korea feels the pinch, Le Monde Diplomatique, July 2009.
47 World Bank, Economic Indicators databank, as of July 2013.
48 Tony Mitchell: Structural Reform – Economic Policy Reforms in the Lee Myung-Bak Administration, Korea's economy 2009, volume 25, The Korea Economic Institute.
49 Philippe Pons, South Korea feels the pinch, Le Monde Diplomatique, July 2009.
50 Fukagawa Yukiko: Behind South Korea's Emotional Response to Abenomics, nippon.com, 7 June 2013
51 The Economist: South Korea's new president – Plenty on her plate, 5 January 2013.

➡Contradictions of Korea's public policies with the neoliberal mantra

Since the 1997 crisis, it appears to be clear that Korea has transitioned from a staunchly protectionist-nationalist and Keynesian-inward-looking economic ethos to an outward-looking, globalised, supply-side economic paradigm, with the dream of enabling Korea-Inc to ascend to the top rankings of the global marketocratic system. Nonetheless, there is considerable debate as to whether Korea has fully embraced the idea of putting the market in the driver's seat of its future –with all the social, democratic and environmental implications– or if it has simply adapted its traditional nationalistic economic policy –through political economy cherry picking– to the realities of an undemocratically imposed, yet vastly neoliberalised global economy. While many authors take for granted that Korea has indeed abandoned its Keynesian economic approach, as practically all countries have, some argue that there are concrete contradictions in Korea's policy that show that Korea has simply adapted to the current times without abandoning its nationalistic vision –the result of centuries of foreign domination (China, Japan, US), which is moreover imbued by its regional share of Confucianism, of social solidarity and the primacy of the community over the individual. Oxfam's assessment of East Asia's development in the aftermath of the 1997 crisis, questions the World Bank's claim that the success that brought to prominence the powerful economic growth of the East Asian "tiger" economies was a testament to the success of the free-market policies associated with structural adjustment –from demand to supply-side– programmes. The study asserts that the so-called East Asian model of economic neoliberalism is nothing more than an invention of neoliberal fundamentalism to sustain a myth, for each country followed its own model depending on its particular historic, political and economic circumstances. It is a myth, it is argued, that the regions' economies adhered to the neoliberal mantra, for most combined growth with equity, which runs contrary to the structural adjustment policies pushed by the World Bank and the IMF; such policies, the argument continues, are inconsistent with the actual policies that achieved growth with poverty reduction. It is further argued that the broad lesson that emerges from the range of national experiences is *that poverty is not inevitable; that growth with equity is the key to poverty reduction; and that success in poverty reduction depends on political commitment.*[52] Indeed, the gradual expansion of the Welfare State to provide social security, educational and health endowments to the vast majority of Korean society is considered anathema to the neoliberal mantra that demands the reduction not only of social rights but of the State in itself to its minimum expression.

Another very recent view that challenges the discourse that Korea's success is anchored on its embracement of neoliberalism, asserts that its development path since the advent of free marketeering has been only a reformulation of the mercantilist national growth strategy adjusted to the imperatives of globalisation. It explains that, due to increased competition based on low wages, Korea sought to establish off-shore production to protect its export-based chaebols. Thus it has aggressively promoted overseas direct investment (ODI), particularly for labour-intensive manufacturing and mining to cut labour costs and have access to natural resources and to new markets. In this way, the transition has moved from protecting the chaebols on their own turf to protecting them in their overseas operations.[53] It asserts that in many ways, Korea's development path contradicts the principles of neoliberalism and the neoclassical interpretation of development, but it shies away from challenging the Washington Consensus and, consequently, it does not offer an alternative path. Yet, it reflects a fundamental change of its self-interest given it perceives itself no longer as a developing country. Instead, it attempts to navigate through the global system promoting its own successful development experience, and it does so by promoting policies that pursue its self national interest but omits other critical policies of its success story that are in direct contradiction with neoliberal dogma, such as the wide range of export subsidies violating WTO rules, extensive capital controls and exchange rate management;[54] or price controls to fight inflationary pressure, which are completely anathema to free marketeering philosophy.[55]

From TLWNSI perspective, the hard fact is that there is extensive information documenting the rising inequality in Korean society, which can only be attributed to its full incorporation into the global marketocratic system through its gradual and by now almost complete economic liberalisation. On the other hand, there is abundant evidence that Korean development has made a point to share its phenomenal economic growth with vast sectors of the population by investing in the development of social assets, particularly education and healthcare, and gradually providing access to them for the vast majority of society. By the same token, there is ample documentation, which will be addressed in the third part of this assessment, that Korea has shared its growing wealth with a majority of workers by allowing the labour's share of

52 Kevin Watkins, Economic Growth with Equity, lessons from East Asia, Oxfam Publications, 1998.
53 Thomas Kalinowskia and Hyekyung Cho: Korea's Search for a Global Role between Hard Economic Interests and Soft Power, European Journal of Development Research (2012) 24, 242–260. doi:10.1057/ejdr.2012.7; published online 23 February 2012.
54 ibid.
55 Seyoon Kim: South Korea may use price controls to cool inflation. Bloomberg 15 July 2008.

income, particularly in the manufacturing sector, to increase exponentially. This event is almost unheard of in the developing world and, thus, from a labour's compensation perspective, Oxfam's argument that growth with equity is truly possible is indeed vindicated. However, Korea's labour share of income, after rising steadily for decades, has reached a plateau and is now facing the realities of a supply-side paradigm obsessed with shareholder value. Real wages are no longer growing much and are struggling to maintain their share of income.

Lastly, while clearly Korea's economic policies dealing with social issues have been inconsistent with neoliberal orthodoxy, the historical record provides hard evidence that the thrust of Korea's economic engine –since the 1997 crisis– is undoubtedly neoliberal. It is likely that cultural traditions predisposed the political will of all recent governments to protect a minimum State of social entitlements, but the globalisation of Korea has undoubtedly put the market on top and allowed it to profit over people and the environment. Neoliberal dogma includes some social considerations. It does consider the need to provide some social "aid" by focalising public social spending exclusively on the segments of the population who have fallen below national poverty lines and are in a truly poverty stricken situation. For the rest it wants them to fend for themselves with the privatisation of pension programs, healthcare, education and other social entitlements. Other countries fully immersed in neoliberalism provide focalised aid to the most impoverished sectors of their populations, while they continue allowing, and even promoting, the consolidation of the supply-side ethos. Brazil's "Bolsa Familia" or "family allowance", which is part of the "Zero Hunger" assistance program for the neediest, is an emblematic case of the focalised social assistance policies prescribed by neoliberalism. They never challenge the system, only mitigate the suffering. Each country reacts to the very negative social implications of the neoliberal mantra based on their particular social and cultural background. Yet it is an axiom that in a system that puts the market in the driver's seat of its socio-economic path, workers will see their real wages and labour rights continuously and systematically eroded, and their Welfare State reduced to its minimum expression if it is not completely eliminated. Thus, the inconsistencies with neoliberalism in Korea's public policies, such as a resistance to dismantle the people's social entitlements or its violation of some of the market's rules, are nothing more than the tortuous struggle of the new Korea-Inc to adapt to the neoliberal ethos, by putting its national self interest first, just like any other player would do. It just appears to be, until now, that Korea's national self interest still retains a far greater degree of social solidarity, anchored on its cultural background, than the Anglo-US orthodox version of neoliberal economics or even the European Union's version. Yet, the new arena where Korea is playing is undoubtedly marketocratic and will not change unless societies mobilise to put a stop and build a people and planet paradigm.

➡Korea's industrialisation strategy

With the launch of the first economic five-year plan in 1962, Korea followed a clear development path anchored on its rapid industrialisation. Korea first placed all its economic thrust on the development of labour-intensive industries; first with light industry in the textile sector, then with heavier industries in the chemical sector to establish an export base anchored on cheap labour as its core competitive advantage. The first sectorial impulse focused on the import substitution of consumer goods, but soon moved into heavier industries. The industrial sectors chosen by the Ministry of Commerce and Industry were PVC plastics, oil refineries, cement and fertilisers. The government provided a variety of incentives and infrastructure, including industrial parks, to industries at subsidised costs with an emphasis on exports. Table 1.1 shows the powerful and sustained growth of exports nominally and as a percent of GDP. The 1997 crisis and the current ongoing global crisis have not had a negative effect on the growth of exports. Despite a drop in the average annual growth of exports during the 1997-2001 period, exports increased very significantly their percent

Table 1.1 – Korean economic growth in GDP and exports

Period	GDP growth rate %	Value of exports (billions US $ dollars)	Exports as a percent of GDP %	Average annual growth of exports %
1962-1966	8	1	7,7	
1967-1971	9,7	3	13,7	40
1972-1976	8	22	27,8	127
1977-1981	6,2	77	31,5	50
1982-1986	8,7	141	34,4	17
1987-1991	9,4	307	32,1	24
1992-1996	7,3	510	28,7	13
1997-2001	3,9	734	40,6	9
2002-2006	4,8	1220	32,6	13
2007-2011	3,5	2178	44,1	16

Sources: IMF: International Financial Statistics yearbooks for 2006, 2009 and 2010; World bank economic indicators database (consulted on july 2013); Jai S. Mah, Industrial Policy and Economic Development, Korea's experience, Journal of Economic Issues, Association for Evolutionary Economics, Vol 41, March 2007.

of GDP. In fact, they increased their annual average growth to 13% and 16% for the next two five-year periods, despite the global economic downturn since 2007; which is similar to the pace experienced in the periods before the Asian crisis.

Gradually, Korea's industrialisation transitioned from labour intensive to capital-intensive and skilled-intensive manufacturing as economic growth transformed its factor endowments to be dominated by capital and skill accumulation. In the early 1970s six industries were chosen as strategic: steel, shipbuilding, capital goods, electronics, non-steel metal, oil and chemicals. The criteria used was forward and backward value-chain linkages, contribution to GDP and to exports for foreign exchange receipts.[56] Several elements are considered fundamental in Korea's rapid industrialisation and development strategy.[57] First, the effort to normalise relations with Japan to attract foreign direct investment and address balance of payment insolvencies. Another element was a keen interest in investing in education to provide a skilled industrial labour force as a driver for growth. The most fundamental element was the State's permanent and very visible hand to dictate economic policy, controlling labour activity and the banking system and establishing industrial development priorities. The State put special emphasis on repressing labour demands for higher wages and labour rights. It also exerted complete control of financial flows with direct control of monetary policy through the Bank of Korea and by controlling both State and private banks. Yet, despite the State repressing labour activity, economic growth gave way to a rise of real wages. This naturally pushed the State's industrialisation strategy to move its emphasis to heavier industries that are more capital and skilled intensive.

From inception, the process required the close cooperation of the entrepreneurial class, which gave rise to the chaebols. As previously noted, the State applied a very protectionist approach focused on the development of the chaebol conglomerates. Until the 1990s, SMEs received little support from the State. It was only until then that the State finally recognised the need to provide support to this sector, which was still immersed in labour-intensive activities.[58] Technology transfers and technological imitation were key components of Korea's industrialisation in the first decades. In the 1980s, with wages continuously rising and thus reducing labour's comparative advantage, Korea identified the need to move from that stage into technological development, supporting new industries with high domestic content of new technologies.[59] The industries targeted were semiconductors, automotive, shipbuilding, metal and small aircrafts. Heavy emphasis was put on the generation of research and development capital, to make it the thrust of economic development. Once again, the government devoted special efforts to rein in decision making in the private sector to crush its natural short-termism, always anchored on the maximisation of shareholder value. Given that the chaebols had enjoyed from inception –as the main vehicles to implement the governments' industrial policy– the protection and full support of the State, they were asked to acquire a long-term vision by entrusting them with investing in R&D.[60] In the 1990s the government implemented a development plan to support cutting-edge industries, adding pharmaceuticals, atomic power and computers to the list of strategic sectors.[61] High-value capital goods industries were also promoted and supported. The strong emphasis on research and development and the commitment to discipline the private sector so that it would follow industrial policy strategy and invest –with the full support of the State– in long-term projects puts Korea apart from the development processes followed by other countries, particularly in Iberian America, where shortermism was allowed and R&D continues to be neglected.

Concurrently with its gradual move to more value added cutting-edge technology sectors, the chaebols began to invest overseas to increase productivity. The sustained rise of wages, particularly since the 1980s, forced Korean firms to implement outsourced production operations, first investing in the immediate periphery of South East Asia and gradually expanding to Iberian America, Africa and the Middle East. After China and Korea re-established diplomatic relations in 1992, and particularly after China joined the WTO, China has become the leading recipient of Korea's outward direct investment, surpassing the US in 2002[62] and it has grown at a much faster rate than other countries' FDI in China.[63] By the same token, the increase in the standard of living of most Koreans has produced a shortage of workers, particularly

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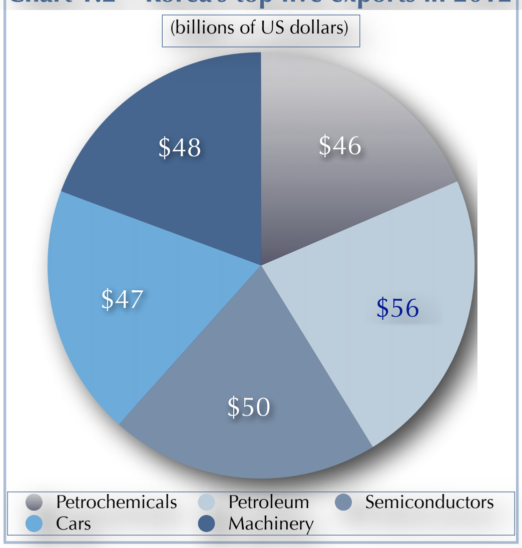
56 Jai S. Mah, Industrial Policy and Economic Development, Korea's experience, Journal of Economic Issues, Association for Evolutionary Economics, Vol 41, March 2007.
57 You-il Lee, South Korea's Meandering Path to Globalisation in the late Twentieth Century, Asian Studies Review, September 2010, vol. 34.
58 Jai S. Mah, Industrial Policy and Economic Development, Korea's experience, Journal of Economic Issues, Association for Evolutionary Economics, Vol 41, March 2007.
59 ibid.
60 David A. Smith: Technology, Commodity Chains and Global Inequality: South Korea in the 1990s, Review of International Political Economy, Taylor & Francis, Ltd., Vol. 4, No. 4 (Winter, 1997).
61 You-il Lee, South Korea's Meandering Path to Globalisation in the late Twentieth Century, Asian Studies Review, September 2010, vol. 34.
62 Thomas Kalinowskia and Hyekyung Cho: Korea's Search for a Global Role between Hard Economic Interests and Soft Power, European Journal of Development Research (2012) 24, 242–260. doi:10.1057/ejdr.2012.7; published online 23 February 2012.
63 Xiaohong Zhan: Analysis of South Korea s Direct Investment in China, China & World Economy / 94-104, Vol. 13, No. 1, 2005.

affecting SMEs. Koreans have been increasingly reluctant to work in menial jobs, which Korea's cultural traits have traditionally denigrated. This has caused a rapid increase of foreign workers since the 1990s. An official report estimated 337.000 foreign workers in Korea, most of them unskilled labourers and 80% of them illegal.[64] Needless to say that these events are a key indicator of the evolution of Korea from a developing nation into a developed one in classic capitalistic fashion.

Korea's has made it its goal since the 1990s to develop a so-called knowledge-based society and to materialise it has targeted six "next-generation" technologies: information, biological, environmental, cultural, nano and space. All of them have received very significant financial support as direct public spending and fiscal incentives.[65] Additionally, another Korean industrial policy priority in the twenty-first century has been the promotion and support of globally-competitive industrial sectors. As part of its by now customary outward-looking strategy –that some scholars describe as micro-economic interventionism– Korean governments are providing special support to their transnationals in their overseas operations where the State perceives to have a technological cutting-edge advantage over other competitors. A good illustration is the nuclear power sector where the government pursues making Korea a leading nuclear power exporter.[66] Korea also seems to be putting special emphasis in the enhancement of cooperation between the chaebols and SMEs.[67] Korea's present strategy is anchored on industrial innovation to sustain its successful yet always dependent export-oriented economy. Korea's industrial policy is framed on five strategic elements: to improve the investment climate, promote regional economic growth, establish an innovative R&D system, upgrade flagship industries and foster new growth engines. Following its customary use of economic plans and targeting industrial sectors, Korea's government has targeted 17 new growth engine industries, clustered in three groups: green technologies, such as renewable energy and green transport systems; high-tech convergence, such as intelligent robots and nano-convergence; and value-added services, such as education and green financing.[68] Korea also seeks to enhance its export power and trade through four key strategic elements: expand export markets, attract FDI, pursue bilateral trade agreements and intensify ties with major trading partners, namely China, US, Asia and the EU. Korea's main exports in 2012 reflect a mix of its old and innovative industries as shown on chart 1.2.[69]

Chart 1.2 – Korea's top five exports in 2012



➡Korea's FDI policy

During the first decades of Korea's path to industrialisation, it managed FDI with very tight regulatory policies. Until the early 1980s, with most banks owned by the state and the rest under firm control, both capital inflows and outflows were very tightly regulated. Consequently, foreign productive capital in Korea played a very minor role in its development. It was not considered strategic in the five-year development plans. During the last four decades of the XX century (1962-1997), until the Asian crisis, FDI into Korea totalled US $25 billion. In contrast, in the eight-year period between 1998 and 2005, FDI approached four times the amount of the previous 35 years, with US $91 billion entering the economy as FDI.[70] Inflows of short-term speculative capital were systematically deterred until the 1990s, when financial liberalisation began. Some authors describe Korea's policy as almost resentful of FDI and clearly biased against it.[71] Other scholars, such as You-il Lee refer to Korea's policies on FDI as exhibiting an almost xenophobic attitude.[72] It is also

64 Wang-Bae Kim: MIGRATION OF FOREIGN WORKERS INTO SOUTH KOREA: From Periphery to Semi-Periphery in the Global Labor Market, Asian Survey, Vol. 44, No. 2 (March/April 2004), University of California Press.
65 Jai S. Mah, Industrial Policy and Economic Development, Korea's experience, Journal of Economic Issues, Association for Evolutionary Economics, Vol 41, March 2007.
66 Thomas Kalinowskia and Hyekyung Cho: Korea's Search for a Global Role between Hard Economic Interests and Soft Power, European Journal of Development Research (2012) 24, 242–260. doi:10.1057/ejdr.2012.7; published online 23 February 2012.
67 Korea Net. Overview, consulted on June 2013.
68 Ministry of Trade, Industry and Energy: Industry policies, consulted on July 2013, www.motie.go.kr
69 Korea Net. Overview, consulted on June 2013.
70 You-il Lee, South Korea's Meandering Path to Globalisation in the late Twentieth Century, Asian Studies Review, September 2010, vol. 34.
71 Thomas Kalinowskia and Hyekyung Cho, The Political Economy of Financial Liberalization in South Korea: State, Big Business, andForeign Investors, Asian Survey, Vol. 49, No. 2 (March/April 2009), University of California Press.
72 You-il Lee, South Korea's Meandering Path to Globalisation in the late Twentieth Century, Asian Studies Review, September 2010, vol. 34.

argued by some scholars (Hoogvelt) that loans were preferred over FDI as a matter of public policy, for it provided leverage to the State over the chaebol industrialists.[73]

Financial policies changed, however, in the early 1990s with the end of Korea's authoritarian developmental regimes. With the Kim Young-sam government, came the *segyehwa* to establish Korea as a brand. Korea was admitted in the OECD, which by design required Korea's full market liberalisation. Thus, financial policy was relaxed and the government lost control of short-term inflows for both portfolio as well as credit inflows. As we know, the latter clearly contributed to the credit overextension and insolvency of the chaebol in 1997.[74] By the same token, short-term inflows grew exponentially and by 1996 portfolio investment was 6,2 times greater than FDI.[75] Subsequently, the Kim Young-sam administration moved to actively promote FDI with the Foreign Investment Promotion Act of 1998, which included security provisions and incentives to actively attract FDI.

Chart 1.3 – FDI inward stock as a % of Korea's of GDP

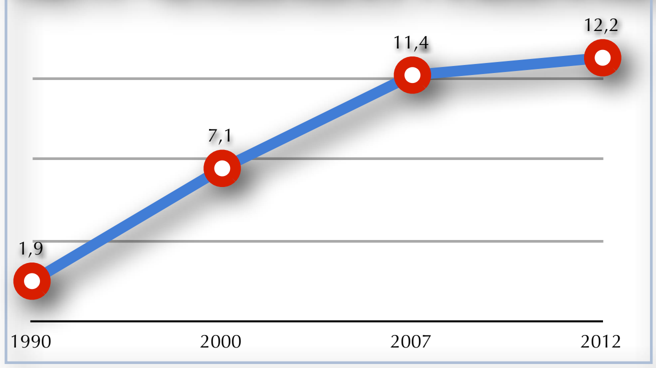


Table 1.2 – 2012 FDI inward stock as a percent of GDP

Country	FDI Inward Stock (US $ Billion)	GDP Current (US $ billions)	TNIC %
Hong Kong	1270,0	263,3	482,3
Singapore	454,9	274,7	165,6
Chile	192,8	268,3	71,9
Morocco	49,9	96,7	47,4
Thailand	159,1	365,6	43,5
Malaysia	125,5	303,5	41,3
South Africa	139,7	384,3	36,3
Peru	63,5	197,1	32,2
Nigeria	84,4	262,6	32,1
Colombia	111,9	369,8	30,3
Egypt	75,4	257,3	29,3
Brazil	609,4	2252,6	27,1
Mexico	315,0	1177,3	26,8
Russia	502,5	2014,8	24,9
Argentina	107,4	474,9	22,6
Indonesia	192,9	878,0	21,9
China	1344,0	8227,1	16,3
Taiwan	59,4	474,0	12,5
India	229,2	1841,7	12,4
South Korea	138,7	1129,6	12,2

Yet, even after the crisis, when Korea had no choice but to open its economy, it continued supporting outward direct investment (ODI), to promote Korea-Inc over FDI as the key to sustain economic growth and increase reserves, instead of FDI and speculative portfolio investments used by other countries, such as Mexico. The number of ODI projects from these conglomerates had exploded from 1987 onwards. By 1996, the top thirty chaebols had 668 subsidiaries in virtually every industrial sector, with many active overseas.[76] In this way, even after shifting from an FDI deterring policy to an investment friendly policy, the UNCTAD still regarded Korea as an economy closed to FDI based on its "transnationality" index, which ranked Korea 29 among 32 developing countries in 2003.[77] In 2005, Korea was still at the bottom, ranking 31 among 32 developing nations.[78] The latest transnationality indicator that we can come up with is one of the four components used by UNCTAD to derive its transnationality index.[79] This is the formula that measures the proportion of a country's FDI inflows stock to its GDP, in terms of 100. Thus:

$$TNIC = \frac{\text{FDI stock}}{\text{GDP}} \%$$

Since 1990 Korea has gradually increased its FDI stock as a proportion of GDP. Yet it is still rather small, accounting for barely 12% in 2012, as shown on chart 1.3. By comparison, major developing countries, or so-called "emerging markets" in East Asia, Iberian America and Africa have generally much higher ratios, baring India, Taiwan, and China, than Korea, as shown in table 1.2.[80]

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73 Ankie Hoogvelt: Globalization and the Postcolonial World, The John Hopkins University Press, 1997.
74 ibid.
75 Jai S. Mah, Industrial Policy and Economic Development, Korea's experience, Journal of Economic Issues, Association for Evolutionary Economics, Vol 41, March 2007.
76 You-il Lee, South Korea's Meandering Path to Globalisation in the late Twentieth Century, Asian Studies Review, September 2010, vol. 34.
77 UNCTAD: World investment report 2006.
78 UNCTAD: World investment report 2008.
79 ibid: Average of the four shares : FDI inflows as a percentage of gross fixed capital formation for the past three years; FDI inward stocks as a percentage of GDP; value added of foreign affiliates as a percentage of GDP; and employment of foreign affiliates as a percentage of total employment.
80 Table based on CIA, The World Fact Book, consulted on 2nd August 2013; World Economic Indicators and UNCTAD: World investment report 2008.

In this way, despite the evident growth of foreign direct investment stock in the Korean economy, as a natural consequence of the country's economic liberalisation, we may arrive at the corollary that FDI has not been a factor in its economic development. As we have observed, Korea's development has been for the most part led by public policy directives and clear strategies; first an inward looking strategy and, subsequently, once the chaebols were competitive in the global arena, an outward looking strategy. It is clear that there is a consistent path set by the *dirigiste State* to advance what was perceived by it as the national interest: the promotion of Korean capitalism with a staunchly nationalistic demeanour. Hence, authors such as You-il Lee emphasise the fact, from his assessment, that neoliberal globalisation in Korea should be regarded as a phenomenon emanating from past public policies and not as a shift in the economic paradigm. In fact, he complains about what he considers as Korea's obsession with an ethos of self-sufficiency and sovereignty, which has motivated an oscillation between insularity and openness that has hindered Korea from making a smoother transition into a mature economy. Nevertheless, when we look at the performance of other emerging economies –particularly in the context of "growth with equity", which is conspicuously evident in the quality of real wages– one can only conclude that the reluctance of Korea's governments for most of their developmental stage, until the Asian crisis, to stop setting the economic agenda and closely managing it, has been the very reason explaining Korea's true emergence from underdevelopment and sheer poverty. This is rather evident despite Korea's authoritarian governments' record of using a policy of wage contention during the first decades after the war. Indeed, one indicator that sets Korea completely apart from practically all developing countries, as we will clearly observe further ahead, is the behaviour of Korea's manufacturing real wages, which is a fundamental indicator –a sine qua non condition– of true economic and social development.

➡Korea's approach to R&D

Korea's authoritarian governments, as economic development progressed, identified the need to gradually move from low-skilled labour intensive manufacturing to high-skilled capital-intensive manufacturing and, later on, to knowledge-base and cutting-edge technological sectors. As in the case of Taiwan, the development of a R&D national sector was seen as a crucial element for its successful transition into a developed economy, and was the basis used to update Korea's industrial policies to move away from heavy industries into cutting-edge and, eventually, next-generation technologies. In the 1960s and 1970s, as Korea transitioned from light industries to heavy chemical industries (HCI), the country was essentially dependent on foreign technologies and on the copycat approach of technological imitation. In the context of technological transfers, Korea's industrialisation followed several stages of technological development: implementation, assimilation and improvement. First, technology was simply transferred and applied. The stage of assimilation consisted in the use of copycat techniques, also regarded as reverse engineering, where an imported product is completely disassembled and then put back together to allow domestic engineers to learn how to imitate and make their own copy. Subsequently, Koreans took ownership of the technological processes and began to improve them. Korea's entire technological development concept clearly implied technological transfers from overseas sources to then eventually transition into a domestic technology.[81] There were no indigenous technologies to speak of, but, as in the case of Japan, this is not a precondition to developing a successful national R&D stock that ends the traditional technological dependency of developing countries.

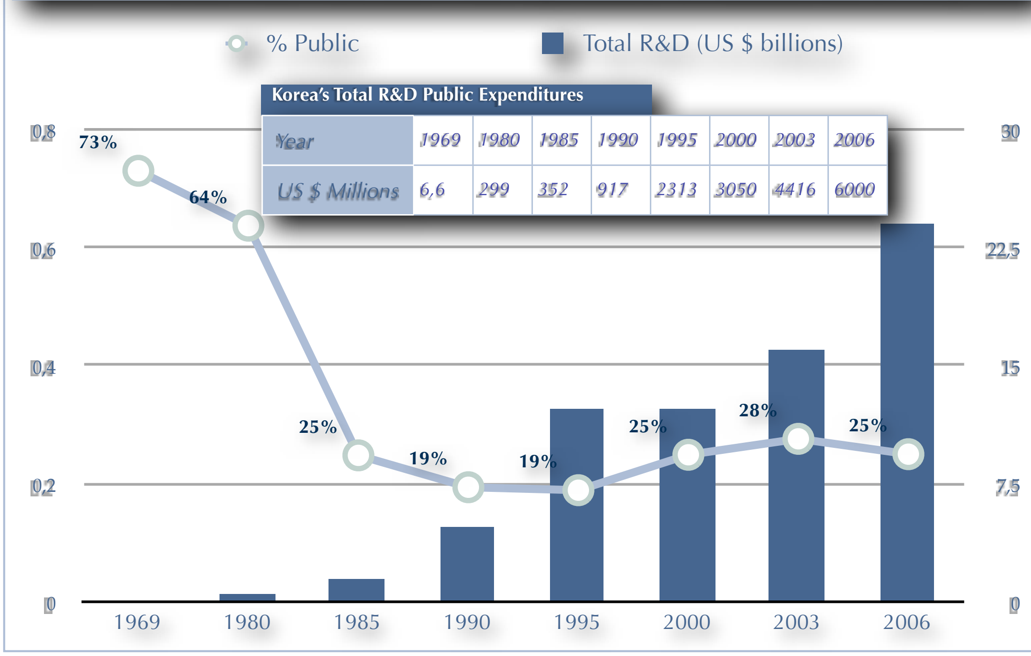
Consequently, almost from inception, Korea's development vision regarded research and development as a fundamental asset of its model; thus it in put a good amount of effort to developing a national stock of R&D. Its roots can be traced back to the keen importance Korea gave to education. With Korea's literacy level already at 90% in the early 1960s, it conferred great importance to develop a skilled labour force. Yet the goal intended was not only to fulfil the needs of manufacturers but also to build a force of actual researchers, of research labourers prepared to become R&D professionals. To this end, in the mid-1960s the government established the Ministry of Science and Technology and the Korea Institute of Science and Technology; the former to oversee all government R&D activities and the latter to act as an industrial research lab. The Ministry also encouraged universities to develop their own undergraduate programs in science. In the 1970s, two scientific communities were established. They included several institutes of science and research centres specialising in shipbuilding, nuclear fuel processing, metrology, chemistry, and energy research.[82] The Korea Advanced Institute of Science and Technology (KAIST) was established in 1971 to develop and offer graduate level science programs. In 2009 the KAIST was merged with the Information and Communications University, which had been

81 David A. Smith: Technology, Commodity Chains and Global Inequality: South Korea in the 1990s, Review of International Political Economy, Taylor & Francis, Ltd., Vol. 4, No. 4 (Winter, 1997).
82 Photius.com: Korea, South, The Role of Science and Technology, consulted in August 2013.

established as the nation's only information technology research university. Gradually, the KAIST became involved in a wide spectrum of scientific research: Natural Sciences, Life Science & Bioengineering, Engineering, Information Science & Technology, Cultural Science, Business, Innovation and Mechanical Engineering, Aerospace Systems, Nanoscience & Technology, Medical Science & Engineering, Energy, Environment, Water and Sustainability (EEWS), Green Transportation, Innovation & Technology Management, Science and Technology Policy, Culture Technology, Management, Finance, Information & Media Management and, lastly, Information Security.[83]

In the 1980s, Korea formalised its R&D effort. The Industrial Development Law of 1985 framed the emphasis to be put on R&D. In this way, for example, Korean car manufacturers, which initially were almost entirely dependent on foreign technology, mostly from Japan, began to develop their own technologies, to the point that by the 1990s Hyundai cars had a high degree of domestic engineering integration.[84] The semi-conductor industry is an even better illustration of Korea's penchant for R&D. Since the 1980s, State support, through the Semi-conductor Industry Development Plan, enabled the sector to become Korea's leading export industry. Between 1986 and 1993, the State provided as much as US $16 million just in research grants for semi-conductor R&D. Subsequently, exports of semi-conductors grew from US $4 billion in 1989 to $26,5 billion in 2004, equivalent to 10,4% of total exports.[85] Gradually, Korea became one of the highest investors in R&D, linking public policy, education and private sector participation. Moreover, as in the case of economic policy, R&D efforts in South Korea have been guided by public initiatives rather than by academic research. Nonetheless, although R&D expenditures were initially dominated by public expenditures, they are now dominated by private expenditures, at the ratio of 3 to 1 as shown on chart 1.4.[86] Yet the State has continued to increase its spending in a sustained manner as shown on the chart's insert. Korea's R&D expenditures have increased so powerfully since 1969 that they have averaged a 72% annual growth in public spending vis-à-vis a 121% growth in private spending annually. In this way, it can be argued convincingly that R&D in Korea has been led by the State and embraced by the private sector. There is much consensus, as in the case of overall economic policy, that the State was capable of disciplining the private sector to look at R&D with a long-term vision as opposed to the traditional business mentality of short-term returns. This has catapulted Korea to the top of R&D spending worldwide as a percent of GDP. Indeed, by the mid-2000s Korea was the third highest spender in R&D with 3,47% (2007), only behind Sweden with 3,6% (2007) and Israel with 4,68% (2007) and clearly above the OECD average of 2,29% (2007).[87]

Chart 1.4: Korea's Total Public and Private Expenditures on Research and Development



83 Korea Advanced Institute of Science and Technology (kaist,edu): at Glance, consulted in August 2013.
84 David A. Smith: Technology, Commodity Chains and Global Inequality: South Korea in the 1990s, Review of International Political Economy, Taylor & Francis, Ltd., Vol. 4, No. 4 (Winter, 1997).
85 Jai S. Mah, Industrial Policy and Economic Development, Korea's experience, Table 2. Journal of Economic Issues, Association for Evolutionary Economics, Vol 41, March 2007
86 ibid; Pundy Pillay: Linking higher education and economic development – Implications for Africa from three successful systems, Centre for Higher Education Transformation, 2010.
87 National Science Foundation: Science and Engineering Indicators, Table 4-11: International comparisons of gross domestic expenditures on R&D and R&D share of gross domestic product, by country/economy/region: Most recent year.

This should not be construed as if Korea has jumped to the pinnacle of R&D in the world, but it has certainly become technologically competitive in many areas. The role awarded to research and development in the development architecture of a country is paramount for the successful emergence as a developed and economically competitive capitalist economy. Otherwise, peripheral economies are bound to remain dependent and subject to the powerful interests of the metropolises of the system, with no real opportunity to break the centre-peripheral relationship where most of the benefits extracted from the national and human resources of so-called developing nations are taken by the metropolises. This is how neocolonialism was exerted during the post WWII period and continues to be exerted since the imposition of neoliberalism globally. Notwithstanding the sine qua non condition of R&D in the successful development of an economy, it should be evident that establishing a R&D sector is a rather complex endeavour. Public, private and academic efforts must be committed and properly coordinated to converge in a successful knowledge-producing emporium that is capable of implementing its technological prowess into practical applications that increase value and multiply its effects throughout its sphere of influence, developing competitive value chains. As Smith explains in his assessment of Korea's R&D in the 1990s, this requires elaborate and sophisticated research infrastructures, legions of highly trained specialists, extensive educational systems, adequate amounts of both private and public funds and close coordination of institutional players to produce "a rich network of linkages".[88] Perhaps even more fundamental is the cultural commitment, through political institutions, to make R&D a fundamentally driving force of socio-economic development. In the late 1990s, Smith and other scholars commended Korea for its commitment to the development of a R&D sector. They regarded it as the most technological advanced of all emerging economies. However, with good reason, they were still sceptical about its degree of autonomy from foreign technology. They cited as evidence the still considerable use of reverse engineering over indigenous innovation. Even more importantly, they also cited in concrete terms –as evidence of a R&D development gap– the ratio of engineers and scientists to the total workers in the labour force (Bello and Rosenfeld, 1990). In 1990 there were 32 engineers and scientists for every 10.000 workers in Korea, whereas the ratio in Japan was 240 and in the United States 160.[89]

Things have changed since then. Using World Bank indicators, the number of researchers involved in R&D per million people in Korea were 5481 for the 2005-2010 period, vis-à-vis 5180 in Japan and 4673 in the US. Only Denmark, Finland, Iceland and Singapore reported a higher ratio. If we look at the number of patents filed by residents, Japan and the US are clearly ahead of Korea, filing 288 and 248 thousand patents in 2011 respectively. Yet, China, with 416 thousand applications, was the only other country ahead of Korea in this entry in 2011.[90] This is quite different from the assessment made in the 1990s. Now the numbers are consistent with those prevalent in some of the most mature economies in the system. Consequently, Korea's R&D gap has dramatically been reduced. Indeed, the sustained increase in R&D spending as a proportion of GDP for the last fifty years has put Korea almost at the top of the list. The number of researchers involved in R&D in Korea –among the top five countries– and the number of patent applications filed by Korean residents –also among the top five– constitute clear evidence that Korea has, in effect, succeeded in making R&D a centrepiece of its development strategy to advance Korea-Inc as a competitive player in today's global economy.

➡Labour policy and evolution of wages and labour rights

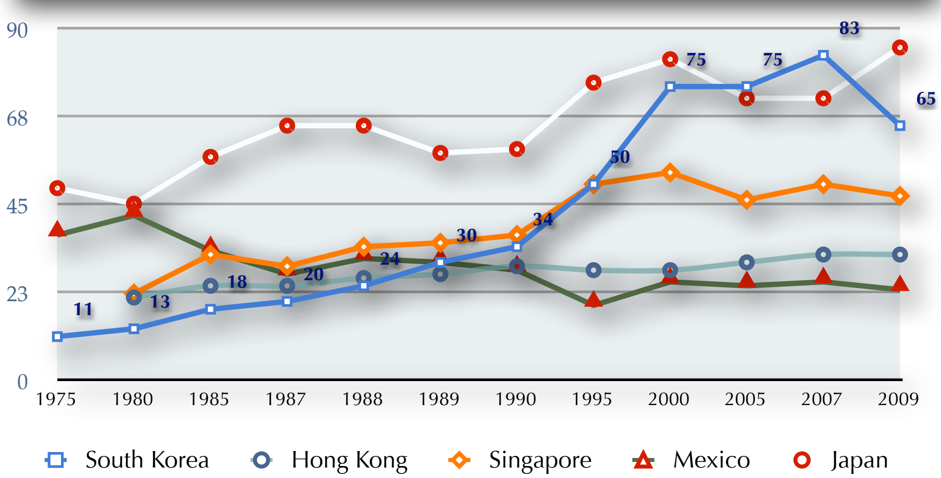
Most scholars document Korea's labour policy during most of its development path of last century as repressive of labour rights. This fact notwithstanding, as I will show here and in more detail in the third part of this assessment, Korea's compensations in general and in the manufacturing sector, in particular, show an impressive growth trend, to the point that, today, real wages are similar to those prevalent in Japan and far ahead of any economy in East Asia or in any part of the developing world. Previous assessments of the State's labour repressive policies were not wrong; it is just that workers strived successfully to increase their share of income. Such success is a rare event. Indeed, many analysts clearly acknowledge that real wages began to rise particularly from the 1980s onwards as a result of powerful labour activism. What also merits emphasis is that, despite prevalent public policy, it appears there was enough economic intelligence in policy makers, and perhaps a good degree of social sensitivity imbued in Confucianism, to understand that generating aggregate demand to induce endogenous growth is a key element of good economic policy design, particularly after the authoritarian period. In contrast, most countries systematically impose a sheer labour exploitation model and act ruthlessly to contain labour demands. Regardless of GDP growth, they maintain an ethos where most of the legitimate

88 David A. Smith: Technology, Commodity Chains and Global Inequality: South Korea in the 1990s, Review of International Political Economy, Taylor & Francis, Ltd., Vol. 4, No. 4 (Winter, 1997).
89 ibid.
90 The World Bank: World Development Indicators 2013, Table 5.13 – State and Markets, Science and Technology, consulted on August 2013.

labour's share of the income generated –the surplus value– is consistently transferred to employers to maximise shareholder value. Governments systematically side with employers to maximise the reproduction and accumulation of capital at the expense of workers. This relationship is not as clear cut in Korea. It appears to follow a tortuous process. The State did repress workers, often ruthlessly, but it also forcefully disciplined the chaebols and SMEs to follow economic policy and at times pressured them to increase wages when it deemed it economically necessary.

Korea's labour costs during the 1960s and 1970s were extremely low. Compared with other developing countries, such as Mexico, the Korean total hourly compensation cost in manufacturing for production-line workers was, in 1975, $0,67 vis-à-vis $2,32 for Mexico, in real purchasing power terms, or 29% of Mexico's. In 1980 it had almost doubled to $1,27 but it was still only 31% of Mexico's hourly rate, 63% of Hong Kong's and 60% of Singapore's compensation cost. By 1985 Korea's labour cost for production-line workers began to speed up its growth, accounting for 55%, 78% and 57% of Mexico's, Hong Kong's and Singapore's hourly compensation costs, respectively. Five years later, Korea's cost was 122% of Mexico's, 115% of Hong Kong's and 90% of Singapore's. By 2007, Korea's total hourly compensation cost, in purchasing power terms, was equivalent to 331%, 261% and 166% of Mexico's, Hong Kong's and Singapore's compensation costs, respectively. In fact, by 2007 Korea was ahead of Japan, for its cost in this entry was equivalent to 115% of the cost in Japan, and it was equivalent to 83% of the equivalent cost in the US as shown on chart 1.5.[91] No other country has been able to achieve such a dramatic improvement in real wage equalisation with the compensation costs for manufacturing workers prevalent in core countries of the system.

Chart 1.5: PPP Real Wages as a percent of US wages for Korean production-line workers



From a chronological perspective, we can divide the state of labour relations in Korea in three phases. The first phase corresponds to the authoritarian regimes, from the end of the Korean war until their end, in 1987. The second phase lasts a decade until the Asian debacle of 1997. The third phase covers the gradual integration of Korea into neoliberal global capitalism and its present day consolidation of a sheer supply-side paradigm where the market reigns supreme.

During the first phase of labour-intensive industrialisation, workers practically had no rights. Labour repression was applied as the standard by employers and the dictatorship's labour authorities in a joint and coordinated policy of labour control, with the full cooperation of the corporatist Federation of Korean Trade Unions (FKTU), a puppet union. Park's regime ruthlessly controlled workers. Both twelve-hour seven-day work shifts and resorting to the use of torture were not uncommon whatsoever.[92] Yet, despite permanent repression, workers began to organise and mobilise during the autocratic period. At the very start of the 1970s, young female workers, which were the majority during the light industry stage in the textile sector, led the workers movement in demand of higher wages, the workers' right to unionise and better working conditions. The year 1970 is marked by scholars (Koo, Goldner, Shin et al) –when male worker Jeon Tae-il (or Chun Tai-il) immolated himself, on November 13, in desperation for the horrendous working conditions in the, literally, sweatshops of Seoul's garment factories at the time– as the start of the modern Korean workers' movement.[93] Other unionised workers' disputes in that decade are considered seminal events in their tortuous struggle, for catapulting labour rights to the forefront of the struggle for Korea's democratisation. These are the successful establishment of a women-led union at the Dongil Textile Company in 1972 and the YH Company incident of 1979, where a violent repression by police killed one woman and injured many mobilised many sectors of society, including political opposition leaders, in demand of democratisation of labour

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91 The Jus Semper Global Alliance: Table-T4 – Living-Wage-Gap and Equalisation analysis (vis-à-vis the US) for production manufacturing workers in purchasing power parity terms 1975-2009, http://www.jussemper.org/Resources/Labour%20Resources/Resources/T4rcrslbr.pdf, consulted on August 2013.
92 Loren Goldner, The Korean Working Class: From Mass Strike to Casualization and Retreat, 1987-2008
93 Hagen Koo, editor, State and Society in Contemporary Korea, Cornell University Press,1993.

relations and the end of repression.[94] Moreover, despite State repression, the social struggle for democratisation and social justice did not decline. University students and Christian religious groups, many from the Catholic liberation theology, worked together to provoke social conscience among workers about their labour and human rights.

The last autocratic government, of Chun Doo Hwan, kept a policy of harsh social repression, including prominently workers and students, and was the most active of all. The Kwangju massacre of 1980, where the military, including an elite military unit, was sent to ruthlessly crush the students' and citizens' uprising against the State –that resulted in an estimated death toll as high as 2000[95]– is the worst display of blatant repression in the later years of Korea's autocracy. Public protest virtually stopped. However, by 1984, lacking legitimacy, with domestic political pressure mounting and weighing in the international political repercussions of a Police State vis-à-vis the upcoming Asian Games of 1986 and the Olympic Games of 1988, fChun's government was forced to relax social control, including labour control, and unionisation immediately began to rise. Growing labour activism continued until the end of the dictatorship period proper in 1987.[96]

Furthermore, despite the harsh repressive policies against labour, the transition from light and labour-intensive industries to heavy and skilled-intensive industries in the 1980s, compounded with growing labour demands, made real wages grow relentlessly, as can be clearly observed on chart 1.5. It can hardly be contested that, in the context of a repressive, crony capitalist and chaebol-oriented corporatist State, wages would not have risen as they did if it were not for the courageous struggle of workers, with female workers standing out prominently in their activism. A key element worth noting is the so-called solidarity democratic movement that evolved during the 1970s and 1980s, galvanising different social groups: students, religious groups, workers and other citizen groups. All of them converged into one movement in demand of the end of the autocratic regime. To this effect, there were inter-firm solidarity actions where workers of one factory supported the struggle of other factories. There were "solidarity strikes", such as the one against Daewoo Apparel ,where workers' demands went beyond labour demands to advance broader political goals for democratisation.[97] This particular feature of Korea's social struggles stands out from the rest. Typically, different social groups fight in pursuit of their particular interests. They seldom converge into one movement where the entire spectrum of social demands is fused into one umbrella movement that zeroes in on the demand for, in this case, democratisation, where members are keenly conscious that such demand encompasses all group-specific demands: economic, social, cultural rights, etcetera. This was one of those rare occasions, the product of much dignity in the Korean working class in my opinion.

The year 1987, with the end of the autocratic period proper, was an iconic year signalling a turn in Korea's labour struggles with the emergence of a new labour-State-capital ethos that finally ended the period of blatant repression and allowed the organisation of trade unions. This should not be construed, however, as the end of labour repression then and thereafter in the marketocratic ethos. It simply ended the period of dictatorial repression and sheer human rights violation. It became less harsh, yet still repressive. Nonetheless, the end of this period materialises in the explosion of new trade unions, which immediately went on strike, and, very prominently, in the exponential growth of real wages. Indeed, better labour entitlements and higher wages materialised as a direct result of an explosion of labour strikes. In January 1987 the death of a university student in a police interrogation triggered immense social furore that mobilised thousands demanding direct presidential elections. Social unrest escalated into what is known as the *Nodongja Taettujaeng* or the Great Workers' Struggle, beginning in June of that year, triggering thousands of strikes. The size of the wave of labour activism was so large that some analysts (Goldner) equates with the great labour struggles that unfolded towards the end of the twentieth century in other societies, such as Poland's Solidarnosc (1980-81), the Iranian workers councils (1979-1981) and the Brazilian strike wave (1978-1983).[98] Table 1.3 shows the explosion of labour disputes and its effect in number of days lost, the main cause of the dispute and its weight over all disputes between 1980 and 1998. The explosion in the number of disputes is dramatic in 1987, with 2,6 labour disputes that year for every dispute in the seven preceding years combined. Even more striking is the 6,9 million working days lost in 1987, equivalent to almost 26 times the number of days lost in the seven preceding years. As to the cause of the dispute, while the delay in the

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94 Gi-Wook Shin, Paul Y. Chang, Jung-eun Lee and Sookyung Kim: South Korea's Democracy Movement (1970-1993): Stanford Korea Democracy Project Report, The Korea Democracy Foundation, Shorenstein Asia Pacific Research Center, Stanford University, 2007.
95 Loren Goldner, The Korean Working Class: From Mass Strike to Casualization and Retreat, 1987-2008
96 Gi-Wook Shin, Paul Y. Chang, Jung-eun Lee and Sookyung Kim: South Korea's Democracy Movement (1970-1993): Stanford Korea Democracy Project Report, The Korea Democracy Foundation, Shorenstein Asia Pacific Research Center, Stanford University, 2007.
97 ibid.
98 Loren Goldner, The Korean Working Class: From Mass Strike to Casualization and Retreat, 1987-2008

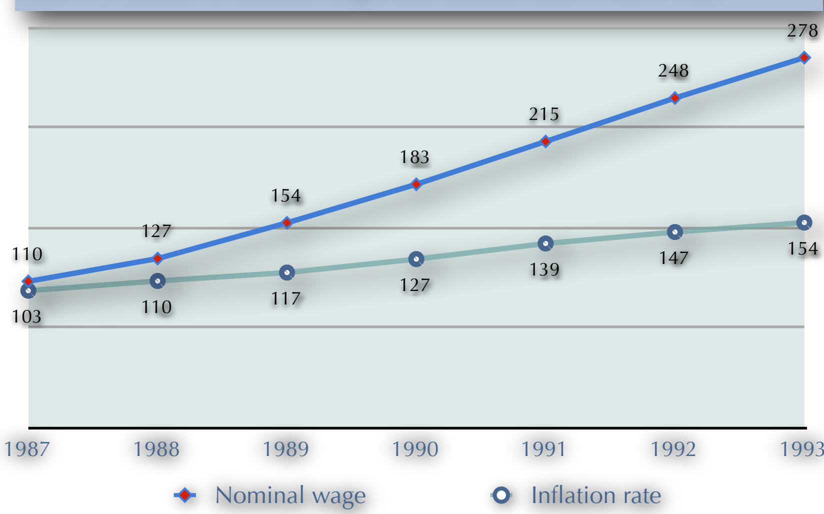
payment of wages was the main cause of disputes during the last seven years of the dictatorship, wage bargaining was overwhelmingly the main cause of the dispute in 1987 and in all the subsequent years.[99] With the Great Workers' Struggle in 1987, the number of labour disputes exploded, with a 1258% increment in just one year (from 276 to 3749 disputes). The number of working days lost is even more dramatic, with an increment of 9549% over the preceding year, with 6,9 million working days lost vis-à-vis only 72 thousand in 1986. From 1987 to 1990, workers' struggles in Korea accomplished their best gains in wages and labour entitlements, with full employment prevailing during the period. This was a short period that gradually dwindled until the 1997 Asian crisis. Workers' unionisation also peaked in 1989, with 23,3% of the work force unionised, to then drop to 13,8% by 1998.[100] With 25-30% nominal wage increments not uncommon whatsoever,[101] real general wages in Korea increased in a powerful manner during the period. General nominal average wage growth peaked at 21,1% in 1989. Between 1987 and 1993 nominal wages rose an average of 15,8% whilst average inflation rose 6,4%, allowing real wages to more than double (123,7%) during the period.[102] Chart 1.6 illustrates this trend. As for manufacturing wages, with data available all the way back to 1975, we observe more evidently the tremendous growth of wages immediately after the Great Workers' Struggle and it grows even faster in the 1990s. Chart 1.5 illustrates such event.

Table 1.3 – Labour disputes in Korea

Year	# of disputes	working days lost (1000s)	Main dispute	as % of total disputes
1980 – 1986	1433	270	delayed wages	39,4
1987	3749	6947	wage bargaining	69,7
1988	1873	5401	wage bargaining	50,5
1989	1616	6351	wage bargaining	45,9
1990	322	4487	wage bargaining	51,9
1991	234	3271	wage bargaining	56,4
1992	235	1528	wage bargaining	57,0
1993	144	1308	wage bargaining	45,8
1994	121	1484	wage bargaining	42,1
1995 – 1998	380	3183	wage bargaining	25,8

This concrete element, the powerful rise of real wages, puts Korea apart from, practically, the rest of the developing world. As I will show in the third part, only the economies of Singapore and, to a lesser extent, Taiwan have been able to increase real wages well above the standard level of modern slavery prevalent in periphery countries, albeit Singapore does not perform nearly as well as Korea among production-line workers.

Chart 1.6 Growth of nominal wages and inflation rates (1986 = 100)

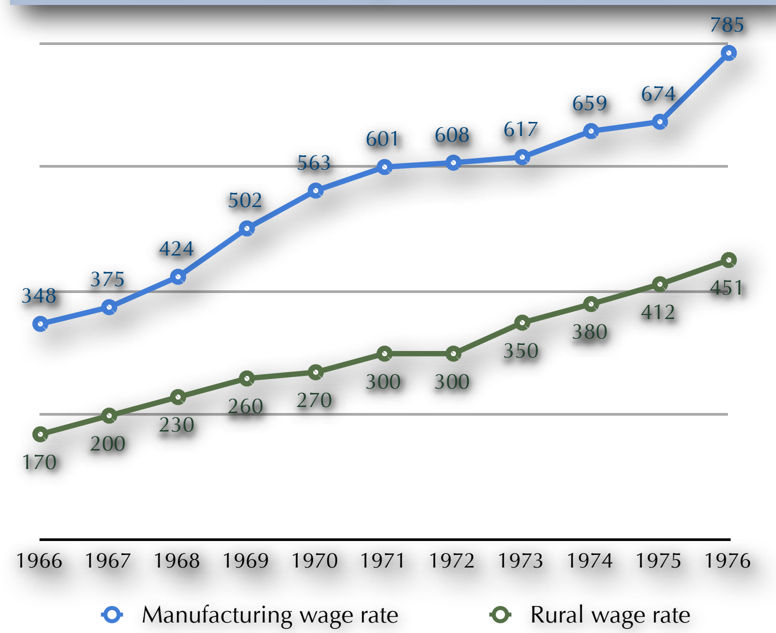


Several factors have contributed to the rise of Korea's real wages to the level of developed economies. The gradual transition from labour intensive to skilled intensive and from heavy traditional industries to high-tech manufacturing have unequivocally played a role in the rise of wages in Korea. In this process, the State has clearly played a role –perhaps relatively influenced by some Confucian values, but certainly influenced by a long-term vision– in the gradual increase of real wages. In the same way that Korea's *dirigiste State* had disciplined the chaebols to follow industrial policy and invest accordingly, it also disciplined the chaebols to prioritise industrial upgrading with a

99 Tat Yan Kong: Labour and Neo-Liberal Globalization in South Korea and Taiwan, Modern Asian Studies, Vol. 39, No. 1, Cambridge University Press, February 2005.
100 ibid.
101 Loren Goldner, The Korean Working Class: From Mass Strike to Casualization and Retreat, 1987-2008
102 Heo, Uk; Jeon, Houngcheul; Kim, Hayam; and Kim, Okjin, "The Political Economy of South Korea: Economic Growth, Democratization, and Financial Crisis," Maryland Series in Contemporary Asian Studies: Vol. 2008: No. 2, Article 1.

long-term vision rather than seek short-term profit maximisation.[103] It just happens that this vision of industrial upgrading from low-skilled to sophisticated manufacturing, to produce much higher value-added items, also contemplates an increase in the share of labour with higher real wages as a logical consequence of the equation, for it requires more educated and highly skilled workers. And the State look at it not only as a necessity of industrial upgrading but also as the main path to social development and, thus, to poverty reduction. Some consider it as the natural outcome of global Fordism that creates the middle classes who are no longer willing to take menial low-wage jobs and that in turn demand a higher share of the income generated. As it can also be observed in chart 1.5, wages did increase during the authoritarian era when efficiency increased and when full employment was reached,[104] the latter being an explicit objective of economic policy in Korea (Watkins: 1998, Hong: 1980). In fact, real wages began to grow in a sustained manner from 1964 onward. It appears that from the mid 1960s to the mid 1970s the Korean labour market was transformed from a classic underdeveloped one –with high unemployment and slow urban growth– into a neoclassical, full-employment one by the 1970s.[105] As shown on chart 1.7, manufacturing wage rates increased 72,5% between 1966 and 1971 (yearly average of 14,5%) and 125,6% by 1976 (yearly average of 12,6%). Furthermore, the State also supported farming development with small landowners, and wage rates grew even faster, slightly reducing the manufacturing-rural wage ratio for the period. This was also influenced by the sustained migration from the rural environment to the cities, reducing in this way the labour pool for farming. Thus, rural wage rates increased 76,4% between 1966 and 1971 (yearly average of 15,3%) and 165,3% by 1976 (yearly average of 16,5%). Hence, the manufacturing to rural wage ratio dropped from 2,0 to 1,7 for the entire period.[106] Despite the fact that trade unions were almost non-existent during this period, real wage rates recorded a sustained growth because Korea was and remained at relatively full-employment levels from the 1970s onwards.[107] This generated a strong growth of aggregate demand and contributed to accelerate all multiplying effects. This gives credence to the fact that the Korean Developmental State, both during the authoritarian period and afterwards until the Asian crisis, and despite its repressive policies, maintained a relative degree of equilibrium between the traditional supply-side crony capitalist approach and the demand-side approach required to fulfil its social developmental goals. In a nutshell, by fulfilling the State's goal of full employment, market dynamics pushed real wages up and the authoritarian State did not interfere, for this also fulfilled its goal of growth with equity.

Chart 1.7: Annual wage rates (1970 US dollars)



Lastly, that Korea-Inc gradually transitioned from labour intensive to a dramatically more sophisticated economic structure did not signal, however, the abandonment of labour intensive manufacturing. Already in the mid-1980s Korean workers were no longer willing to do menial work. Their incomes had risen and the comparative advantage of cheap labour was no longer a factor. Thus, when the pressure of workers' struggles for better wages and better conditions became unavoidable, the chaebols followed the same path of mature economies in the core of the system and began to transfer their labour intensive operations or resorted to outsourcing their production to countries where modern slave work is still the norm, first in the region –in Malaysia, China, Thailand, Indochina– and later in Iberian America and other regions. Indeed, as previously commented, labour-intensive manufacturing has been one of the major factors shaping

103 David A. Smith: Technology, Commodity Chains and Global Inequality: South Korea in the 1990s, Review of International Political Economy, Taylor & Francis, Ltd., Vol. 4, No. 4 (Winter, 1997).
104 Wontack Hong: Export Promotion and Employment Growth in South Korea, in Trade and Employment in Developing Countries, 1: Individual Studies. Editor: Anne O. Krueger, Hal B. Lary, Terry Monson, and Narongchai Akrasanee, eds., University of Chicago Press, 1980.
105 ibid.
106 ibid: based on Ministry of Agriculture and Fisheries, Report on the Results of Farm Household Economy Survey; Economic Planning Board, Report on Mining and Manufacturing Census (or Survey); Bank of Korea, Economic Statistics Yearbook.
107 ibid.

Korea's outward direct investment to modern slave work havens. The other alternative, particularly benefiting SMEs that cannot opt for replacing people with machines or outsourcing overseas, has been the rapid rise of foreign workers (mostly illegal) who are willing to do the low-wage labour intensive work that Koreans no longer want to do.[108]

Nonetheless, the historical record makes quite it evident that the unrelenting pressure of Korean workers through their constant struggle to organise and mobilise –including prominently the *Nodongja Taettujaeng* at the end of the autocratic period– outweighed all other factors in their contribution to the rise of real wages and of labour rights. Korea's sustained and powerful rise of real wages in both the entire manufacturing spectrum –from low-skilled work still available to high-skilled work– and in the economy in general, was primarily due to the tortuous and unrelenting struggle of workers for higher wages and better conditions. In his study of political economy in the midst of the globalisation process in the post-colonial world, Ankie Hoogvelt makes a very compelling assessment of the pivotal element in the rise of wages when he asserts that it was *the fury of democratic movements in Korea which in the late1980s successfully confronted the authorities with a forthright militancy that achieved some timid democratic reforms. Indeed, it is the testimony to organised union militancy in at least three of the four "Tiger" economies (Korea, Taiwan and Hong Kong) that wages have been driven up to the point where capital (including not least domestic capital) has been forced to seek cheaper locations further afield, in Malaysia, Indonesia and Thailand.*[109] In all mature economies of contemporary capitalism, hunger wages ceased to be the prevailing standard only as a direct result of many decades –and sometimes centuries– of labour struggles against capital and their corporatist states, and Korea was no exception. By the same token, when sheer labour domestic exploitation was no longer realistic, Korean capitalism followed the same rationale of mature economies and now roams the world striving to secure the cheapest labour available in countries that have being assigned the role of providers of modern slave work in the latest international division of labour.

➡Labour market polarisation

Korea's labour sector was shaped by developmental policies that originated during the authoritarian era and that created two labour markets with a dramatic divide in labour compensation and rights. Thus, from inception, public economic development policy has been a key factor that has gradually contributed to deep labour market polarisation or *nodong sijang yanggeukhwa*. From the very start of development in the 1960s, Korea has had two worker categories or worker social classes: the so-called regular and the non-regular workers. Following the Japanese model of industrialisation led by the keiretsus, economic policy, anchored on the development of the chaebols, created a dualist labour market. Economic policy created an unbalanced (chaebol biased) labour market ethos that hindered an adequate development of SMEs. Regular workers work full-time and enjoy big employment protection entitlements. Typically, they work for the chaebol. Non-regular workers in contrast are the temporary, part-time, agency workers and underpaid family workers, including those in the informal economy, who have limited or sometimes no employment protection. They work for SMEs.

The other major factor shaping Korea's labour sector has been the insertion of Korea in neoliberal globalisation. Elements of the neoliberalisation of the Korean economy playing a key role in labour polarisation are industrial restructuring, technological adaptation to the globalised neoliberal economy and competition with China.[110] Until the Asian crisis, Korea reported fairly good Gini indices, but afterwards labour market polarisation has increased inequality with the number of working poor rising. In 1996 the Gini Index was 29,8.[111] After the crisis, the World Fact Book put the Gini index at 35,8 in 2000, increasing inequality to a Gini index of 41,9 in 2011,[112] whilst the OECD put it at 30,6 in 2006 and at 31,1 in 2011.[113] Typical supply-side neoliberal policies of labour market flexibility, as prescribed by the Bretton Woods Institutions (IMF and the World Bank), have played a major role in the widening of the gap between regulars and non-regulars. Such policies seek shedding workers and weakening production chain links between the chaebols and SMEs in pursuit of the unrelenting goal of maximising shareholder value. As part of this scheme, outward direct investment has moved many labour intensive operations from Korean SMEs firms to suppliers in China, South East Asia or

108 Wang-Bae Kim: MIGRATION OF FOREIGN WORKERS INTO SOUTH KOREA: From Periphery to Semi-Periphery in the Global Labor Market, Asian Survey, Vol. 44, No. 2 (March/April 2004), University of California Press.
109 Ankie Hoogvelt: Globalization and the Postcolonial World, The John Hopkins University Press, 1997.
110 Ji-Whan Yun: Labour Market Polarisation in South Korea – The Role of Policy Failures in Growing Inequality, Asian Survey, Vol. 49, No. 2, 2009, University of California Press.
111 Yeon-Myung KIM: Towards a Comprehensive Welfare State in South Korea; Second conference of East Asian Social Policy Network, the University of Kent, June-July, 2005.
112 CIA, The World Fact Book, consulted on 22 August 2013
113 OECD Statextracts: Income distribution and poverty, inequality, consulted on 17 July 2013. A Gini Index of 100 represents perfect inequality, whereas an Index of 0 represents perfect equality.

elsewhere. It merits to point out that even before the Asian crisis, neoliberal labour policies were in full swing in Korea. Already in 1996 neoliberal hardliners in government won the upper hand and imposed a new Labour Law that was passed secretly, bypassing the opposition. The law introduced the blatant legalisation of *casualisation* practices; the concepts of flexible working weeks, easier dismissals and the recruitment of temporary workers, obviously with less protections.[114] However, Korea's unionised workers reacted with so-called tsunami tactics and mounted a general strike. After the end of the authoritarian regimes, the National Consul of Trade Unions (NCTU) emerged and became a challenge for the traditionally corporatist FKTU, forcing it to become more independent and critical of the State. In 1995 the NCTU was relaunched as the Korean Confederation of Trade Unions (KCTU) but the government attempted to delay its legal recognition until 2000. When the new labour law of December 1996 was passed, both unions decided to act together and launched the largest general strike in the country's history.[115] The government could not resist the pressure, and in January 1997 the new law was repealed.[116] However, an almost identical law was passed a couple of months later and this time it went into effect. The unions' leaderships did not oppose it. The new KCTU was, in reality, striving to establish a more self-serving crony relationship with the State than the FKTU, and it was speculated that the leadership was conniving with employers to block labour mobilisations.[117] Neoliberal governments continued to chip away from the labour gains obtained after 1987. In 1998 the KCTU and the government closed a pact allowing mass layoffs. The general trend has gradually transformed the scene into an ethos of labour *casualisation* with trade unions turning corporatist and conniving with the State and business to impose maximum liberalisation of labour relations in Korea. This triggered innumerable strikes but the imposition of a labour laissez-faire ethos continued to emerge apace. At the end of 2006 new labour laws were passed, allegedly to protect irregular workers. The laws were designed to make all irregular workers become regular workers after two years. Yet the laws were full of loopholes and few companies complied with them whilst many employers laid off irregular workers before the laws took effect.

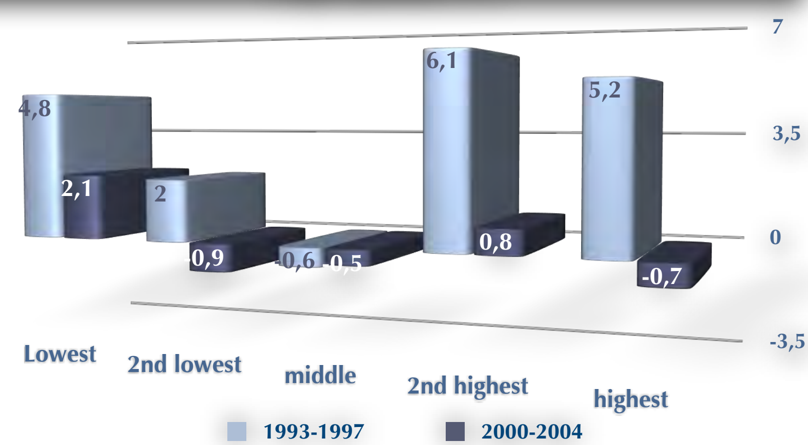
Although Korea has not grown in the current century at the same pace of its developing era, it has recovered much of its competitiveness and has managed the global capitalist crisis much better than the core countries of the system. Yet it has done so at the expense of workers. Indeed, as could be expected, instead of returning to the era of dwindling inequality preceding the 1997 crisis, inequality has been rising. After the crisis, the IMF argued that the only possible labour reform should be to reduce labour entitlements. So it pressed to make new legislation –designed to prevent discrimination against non-regular workers– refrain from providing equal pay or working conditions to them.[118] The sheer feudal power of neoliberalism and the chaebols has forced many Koreans to join the ranks of the precariat. It is a natural consequence of the imposition of marketocracy over people and planet. The most illustrative event is the widening gap in employment status and income levels in the labour markets. It merits to say that, despite Confucianism, the chaebols' management culture is not at all humane. The inner workings of the dynastic Korean conglomerates' corporate culture reflect the same modern-slave work exploitative culture of western capitalism, heavily impregnated with *robber baron* like features. The story of Samsung, for example, exhibits the ruthless treatment of workers both in Korea and abroad.[119]

Ji-Whan Yun's insightful assessment of the polarisation of the labour market points at the vital role played by the State labour policies, despite the implementation of a series of important socioeconomic policies designed to mitigate, never to address the cause, of growing inequality and poverty. Yun asserts that these policies failed due to several managerial blunders. Miscalculations that triggered the proliferation of unprofitable SMEs that recklessly competed to cut costs, caused in turn by inadequate government financial assistance and delayed restructuring; the under execution of policy aimed at encouraging marginalised workers to access new labour markets; and the scarcity of government data to properly support policy tools to combat growing household poverty. The SMEs quest for the survival of the fittest centred on procuring the cheapest possible cost of labour. While the chaebols have the financial power to acquire or develop technologies, SMEs do not. Thus, their only choice has been to compete with price, by employing low-wage workers. Another classical consequence of neoliberal globalisation has been the chaebols' use of subcontracting practices, where the conglomerates create their own subcontractors outside of the realm of well organised unions to lower labour entitlements and wages. [120]

114 Tat Yan Kong: Labour and Neo-Liberal Globalization in South Korea and Taiwan, Modern Asian Studies, Vol. 39, No. 1 (Feb., 2005), Cambridge University Press.
115 ibid.
116 Hagen Koo: The Dilemmas of Empowered Labor in Korea: Korean Workers in the Face of Global Capitalism, Asian Survey, Vol. 40, No. 2 (March/April 2000), University of California Press.
117 Loren Goldner, The Korean Working Class: From Mass Strike to Casualization and Retreat, 1987-2008
118 Ji-Whan Yun: Labour market reforrns in Japan and the Republic of Korea, International Labour Review; Dec 2011
119 Martin Bulard: South Korea's corporate dynasty, Le Monde Diplomatique, July 2013.
120 Ji-Whan Yun: Labour Market Polarisation in South Korea – The Role of Policy Failures in Growing Inequality, Asian Survey, Vol. 49, 2009, University of California Press.

The growing income gap is clearly illustrated in chart 1.8, from Ji-Whan Yun's paper, which exhibits the clear contrast in employment growth between the five wage quintiles between the 1993-'97 and the 2000-'04 periods. It becomes very evident that employment growth in all but the lowest wage quintile has almost collapsed.[121] Indeed, compared to the 1993-'97 period, the 2000-'04 period records only a meagre growth in the poorest quintile and almost no growth (0,8%) in the fourth quintile, with drops in employment in the remaining three quintiles. In contrast, before the 1997 crisis, there was very strong average growth in three of the five quintiles –particularly the fourth and fifth wage quintiles with the highest income, with only the middle wage quintile recording a drop in employment in the pre-crisis period. As a consequence, both non-regular workers and the self-employed grew tremendously. Between 2001 and 2004 non-regular employment increased 48,3% whereas total employment increased only 5%.[122]

Chart 1.8 Average Annual Increasing Rates of Employment Size of Five Wage Quintiles (%)



Original source of chart: Woo and Choi, "Saneob Nodong," p. 106.

This is directly linked to the employers drive to trim costs with wage contention strategies by replacing various regular employment pools with various types of non-regular workers with lower wages and less labour entitlements. A case in point, monthly average wages of non-regular workers was half of that for regular workers. This has enabled employers to succeed in establishing the emergence of the Korean precariat. As Yun's assessment indicates, the highest wage quintile appears to be earning more whilst the lowest and second lowest quintiles no longer show upward mobility given that the middle quintile is dropping workers instead of growing. This produces a labour polarisation where the only group with real growth is the lowest income and where a wall in the middle quintile, blocking upward mobility, has emerged, creating a widening wage gap. As part of the economic restructuring that ensued from the 1997 crisis, the chaebols shed jobs in many sectors to reduce their labour costs, but they also increased wages and provided more secure job entitlements to a small cadre of highly-skilled workers to retain the conglomerates' competitiveness. As for those who where made redundant, they had no choice but to seek employment in the SMEs sector, become self-employed or simply give up. The higher pool of workers available for the SMEs has logically pushed wages down in Korea's secondary labour market, fulfilling in this way the goal of the SMEs to minimise their labour costs.

Another consequence of neoliberal labour market restructuring has been the disenfranchisement of many workers from the labour market. A survey found that, between 1998 and 2002, 14% of non-regular workers and 2% of self-employed workers advanced to regular jobs, whilst 20% of both groups decided to exit the labour market.[123] Indeed, after the few years of labour gains resulting from the Great Workers Struggle of 1987, workers began to endure new difficulties in the 1990s from which they never recovered, as we can observe in the rather evident polarisation of the next decade. Goldner's assessment finds that, as a result, *thousands of activists gave up, withdrew into private life, attempted to pursue middle-class careers or, in academia, succumbed to the allure of post-modernism*.[124] The direct byproduct has been the growth in the number of working poor whose earnings are below the official poverty line, to the point that in the mid 2000s the working poor constituted 60% of the total poor population. Moreover, the self-employed accounted for more than half of the total working poor. As with most countries, women endure even worse conditions since they accounted for 70% of the working poor and endured the greatest degree of precariousness in their employment.[125]

The general trend of labour relations since the 1997 crisis has been the rapid increase of casual workers as a proportion of all workers in Korea. In 1991 irregular workers accounted for 44,5% of all workers. By 2002 the incidence of irregular

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121 ibid.
122 ibid.
123 ibid.
124 Loren Goldner, The Korean Working Class: From Mass Strike to Casualization and Retreat, 1987-2008
125 Ji-Whan Yun: Labour Market Polarisation in South Korea – The Role of Policy Failures in Growing Inequality, Asian Survey, Vol. 49, No. 2, 2009, University of California Press.

workers had grown to 51,6%.[126] By 2008 irregular workers in Korea had grown to represent over 60% of all workers.[127] More recent estimates, at the end of 2010, put the incidence of irregular workers at, at least, 70% and as high as 80%.[128] The deliberate transformation of workers into a massive pool of workers in a permanent state of precariousness in Korea has been one of the most successful victories of market-driven, shareholder value obsessive, global capitalism.

Neoliberalism also brought strong growth of foreign institutional investors in Asian markets. This is particularly evident in Korea. The proportion of shares owned by foreign investors increased from less than 10% in 1995 to 30% in 2003 in Japan. Yet, in Korea this grew to up to 50% by 2003. This made publicly-traded companies' culture evolve to shareholderism. The greedy culture of foreign shareholders clashed with Korea's less Darwinian business culture forcing the weakening of labour entitlements, prominently decreasing employment security and firm-level private fringe benefits for regular workers;[129] but non-regular workers fared much worse and are evidently treated as second-class citizens.

➡Evolution of Korea's Welfare State and the effect of neoliberalism

Although Korean governments were clearly dictatorial and chaebol biased and now are oligarchic, neoliberal and continue to practice a good degree of self-interest crony capitalism with the chaebol conglomerates, the Korean State has also been staunchly nationalistic in a way that it committed itself to improve the life of society at large. One can argue that given that Koreans were in such dire straits after the war, it was almost impossible not to observe a substantial improvement of their lives. In fact, it can be argued that all policies aimed at reducing poverty and stimulating economic development and increasing the quality of life are anchored first and foremost on self interest. Yet, the evidence shows that the governments wanted to lift Koreans up not just from sheer poverty, but to provide a dignified quality of life. The rather evident contradictions of capitalism, notwithstanding, Korean governments attempted to produce some level of growth with equity. Thus, from the start, the Korean State began to implement policies aimed at this. Sometimes they were a result of self interest, but some can be deemed to be genuinely anchored on the desire to improve Koreans' lives. Right after the war, the government embarked on an agrarian reform. This included both direct support for small landholders, investment in the infrastructure and mechanisation needed for small-holder agriculture as well as providing industrial employment to rural migrants. The State also provided marketing infrastructure and services, credit access and, quite critical, price stabilisation and protection from potential cheap imports. Productivity was higher than in larger landholdings and meaningfully contributed to job creation and to a dramatic decline in poverty.[130] With good reason some analysts consider such policy a decision of national security to combat the danger posed by the communist block surrounding South Korea. Goldner asserts that the Korean peasantry received integral agrarian reform as a matter of national security. Yet he adds that this was very beneficial for the regime because it ended latifundia –which typically is the source of reactionary politics– and, increased productivity markedly, for the peasants owned the land.[131] As a consequence, this brought in a social-base support for the new Korea.

Korean governments also began to develop a Welfare State from the early stages. Education and healthcare were already in the first five-year plan of 1962. In education Korea set an aspirational standard for the rest of the developing world. In the early 1950's only 13% of Koreans had received any formal schooling. By the end of the sixties, half of Koreans had been to primary school and 20% to secondary school. Over the next three decades, five years of schooling on average, were added to the time children spent in school. Between 1970 and 1989, Korea quadrupled its educational spending. School quality has also advanced so dramatically that Korean children have consistently achieved some of the highest scores internationally in scholastic tests.[132] In the OECD's 2009 Programme for International Student Assessment (PISA) Korea ranked fourth, sixth and second in the world in the math, science and reading scores, respectively.[133]

Korea established a national healthcare plan since the dictatorship of Park Chung-hee. Yet national healthcare coverage has not been as magnanimous, whatsoever, as education. Health coverage was restricted to regular workers only and it was voluntary, through medical insurance societies organised by employers, until 1977. Yet the system gradually and

126 Andrew Eungi Kim and Innwon Park: Changing Trends of Work in South Korea: The Rapid Growth of Underemployment and JobI nsecurity, Asian Survey, Vol. 46, No. 3 (May/June 2006), University of California Press
127 Loren Goldner, The Korean Working Class: From Mass Strike to Casualization and Retreat, 1987-2008
128 Roddy Quines: South Korea: Struggles by 'irregular' workers multiply, solidarity needed, LInks, INternational Journal of Socialist Renewal, 14 January, 2011.
129 Ji-Whan Yun: Labour market reforrns in Japan and the Republic of Korea, International Labour Review; Dec 2011
130 Kevin Watkins, Economic Growth with Equity, lessons from East Asia, Oxfam Publications, 1998.
131 Loren Goldner: The Making of South Korea, Interviewed by Sasha Lilley on Pacifica Radio, 16 September, 2010.
132 Kevin Watkins, Economic Growth with Equity, lessons from East Asia, Oxfam Publications, 1998.
133 Consulted on 28 August, 2009: http://www.oecd.org/pisa/pisaproducts/pisa2009keyfindings.htm

remarkably improved. That year the government passed a law that made healthcare insurance mandatory for all employers with at least 500 workers. Two years later, legally-binding health insurance was expanded to include all companies with at least 300 workers as well as public servants and private school teachers.[134] The threshold was lowered to 100 workers in 1981. In 1988 self-employed workers (non-regulars) in rural areas were also included. Finally, in 1989 the State expanded the system to include non-regular workers in urban areas. Yet not all was well, for most non-regular workers continued to be treated as second-class citizens, contributing to the labour polarisation previously discussed. Ninety percent of Korea's healthcare system is served by private providers, and non-regular workers were charged much higher out-of-pocket fees than regular workers.[135] In 1999 the Universal Health Insurance Act was implemented and all medical insurance societies were merged into a single-payment scheme to address a variety of inequities, many against the self employed. One major case was that the self-employed had to pay 100% of the contribution whereas regular workers shared only 50% with the rest covered by the employer. Today, all people in South Korea are eligible for coverage under the National Health Insurance Programme, clearly emulating the Japanese model.[136] The system provides broad comprehensive healthcare. Total coverage in 2006 was over 47 million, or over 96,3% of the total population. The insured are divided into two groups: employee and self-employed or non-regular workers. A Medical Aid programme covers the remainder. There is also a Long-term Care Insurance programme for disabled older adults.[137] The employee insured pays 2,84% of their income and a co-payment. The self employed contribute to the system depending on their income, property, living standard, and rate of participation in economic activities. The systems are funded through worker contributions, government subsidies and tobacco surcharges.[138] Relative to the system's sustainability, Korea's healthcare system had no deficit until the 1997 crisis, when the IMF intervened in the Korean financial restructuring, producing a substantial deficit that kept growing each year until 2002. The single-payment system, however, improved conditions and by 2004 the cumulative debt was eliminated.[139] Not all is working adequately, however. The government has been fighting to eliminate widespread contribution evasion by employers of non-regular workers and small businesses. In 2001 a specific programme to address the issue was implemented.[140]

The other welfare programmes developed during the industrialisation stage are the pension system as well as the unemployment insurance and industrial accident compensation insurance programmes. In congruence with its two-tiered labour structure, Korea's pension, as well as employment insurance systems, were designed to provide a safety net to regular workers and public servants with non-regular workers excluded. However, as a result of Korea's full incorporation into neoliberal global capitalism, the State sought to provide a universal safety net that would incorporate both regular as well as non-regular workers into a comprehensive social security system. There is a clear dichotomy in Korea's welfare concept, for at the same time that the neoliberal paradigm was established following the 1997 crisis, with labour market polarisation at its core, the State has attempted to compensate by consolidating its welfare system into a universal scheme, now that the latter constitutes the majority. There remains to be seen if the growing labour market polarisation that has made non-regular workers the majority can sustain the system over the long-term.

Korea's formal National Pension Service (NPS) began in 1988 with mandatory coverage for regular workers in firms with at least 10 workers. This pension scheme covered 30% of all workers, namely regular workers in the private sector, mostly working for the chaebols, and public sector workers.[141] As with the healthcare system, the pension scheme was gradually expanded to provide full coverage. By 1999, in the midst of the crisis, the NPS was expanded to include both regular and non-regular workers. Nonetheless, while regular workers share contributions at 50% with employers, non-regular workers have to cover the full contribution, which currently stands at 9% of gross earnings. Understandably, its sustainability was problematic because half of the non-regular workers did not report their earnings, mostly due to economic deterioration, a surge in unemployment and distrust of the State. There was also serious underreporting by self-employed professionals. The expansion of coverage to include all workers entailed that regular workers already covered would suffer a loss of benefit. Thus, the problem triggered strong opposition from the KFTU, the political opposition and

134 Young Joo Song: The South Korean Health Care System, Japan Medical Association Journal, JMAJ 52(3): 2009.
135 Soonman Kwon: Thirty years of national health insurance in South Korea: lessons for achieving universal health care coverage, Oxford Journals, Medicine, Health Policy and Planning, Volume 24, Issue 1, 2009.
136 Jong-Chan Lee, DrPH: Health Care Reform in South Korea: Success or Failure?, American Journal of Public Health, 93(1), January 2003
137 Rachel Linstead Goldsmith: Health Care System Structure and Delivery in the Republic of Korea, New Visions Public Affairs, Vol. 4, Spring 2012, University of Delaware.
138 Young Joo Song: The South Korean Health Care System, Japan Medical Association Journal, JMAJ 52(3): 2009.
139 Rachel Linstead Goldsmith: Health Care System Structure and Delivery in the Republic of Korea, New Visions Public Affairs, Vol. 4, Spring 2012, University of Delaware.
140 Yeon-Myung KIM: Towards a Comprehensive Welfare State in South Korea; Second conference of East Asian Social Policy Network, the University of Kent, June-July, 2005.
141 Ji-Whan Yun: Labour Market Polarisation in South Korea – The Role of Policy Failures in Growing Inequality, Asian Survey, Vol. 49, No. 2, 2009, University of California Press.

several conservative groups. They demanded the separation of the system into wage-earner and self-employed programmes. Yet, the government maintained a firm position in the interest of social solidarity. There was also much debate evolving around the use of a contribution benefit, a tax-based benefit or a mix of both. A tax based benefit was expected to reduce the coverage gap caused for the millions unable to contribute. Yet, the system has remained contribution based and by the mid-2000s, roughly 5,46 million workers (33% of all workers) had refrained from their contribution, primarily due to the polarisation of the market that has plunged millions of regular workers into the *precariat* class of irregular workers (day and part-time workers).[142] The system initially had a 70% benefit payment. However, a number of reforms have been made thereafter to reduce the benefit payment rate, which was lowered to 60%, then to 50% and gradually will be lowered to 40%. Currently, the benefit is at 50% for 40 years of work, but an amendment to reduce the benefit by 0,5% annually until reaching 40% is in progress.[143] On the other hand, the NPS has improved its inclusiveness by reducing the minimum contribution level from 20 to 10 years. Nonetheless, as long as the NPS system remains a contribution-based scheme it will remain the most affected welfare system programme by Korea's labour polarisation and will remain unable to provide effective full coverage.

An Industrial Accident Compensation Insurance was established in 1964 and was designed to be supported by wage contributions in the sector. On the other hand, the Employment Insurance system was initiated only until 1995. However, in contrast with healthcare and the pension plan, these programs do not have a dual scheme separating regular from non-regular workers with two different contribution systems. They covered all employed, which includes employees and blue-collar workers, skilled or unskilled, but in practice it excluded non-regular workers by not incorporating part-time, temporary and self-employed workers, given that coverage required a minimum of 30 hours per week and a tenure of at least 3 months with the same employer.[144] To address the issue, the government responded by attempting to mitigate the impact of the 1997 crisis and the immersion of Korea in the neoliberal global architecture by expanding coverage of unemployment insurance to include the previously excluded who work primarily in SMEs. Thus, in 1998 daily and temporary workers were included and in 2002 part-time and foreign worker were also incorporated.[145] To include part-time and temporary workers, the minimum number of weekly hours required was reduced to 15 hours and the job tenure was reduced to 30 days. The benefit is half of the insured's average daily earnings during the 3 months prior to becoming unemployed. The benefit is paid up to 90 days to those with between 6 and 12 months of coverage; for up to 240 days with more than 10 years of coverage or aged 50 or older or disabled. [146] The Employment Insurance program also includes the Employment Stabilisation Programme –designed to subsidise employment of workers under threat of being laid off– and the Job Skill Development Programme and other benefit programmes. Both programmes have been criticised for under-execution of their budgets.[147] To be sure coverage is far from including millions of workers who still do not comply with the reduced requirements. The programmes also suffer from widespread underreporting from SMEs. In 2012, the number of insured persons as a percent of total employed persons stood at 45%. By the same token, the number who were actually covered by the industrial accident compensation programme was 58% in 2012.[148]

The gradual emergence of a Welfare State that provides a good safety net for Korean society, clearly denotes a commitment of both Korea's authoritarian and so-called democratic regimes to incorporate the vast majority of the population into a system that guarantees a minimum set of social entitlements that provide, at the very least, a minimum yet dignified quality of life. Education, healthcare, retirement income, unemployment and accident insurance and new skills development, among others, all contribute to provide Koreans access to the social assets necessary to carve a dignified livelihood. These, however, constitute only a complement to the fundamental and indispensable right to be paid a living wage. Korea's economic paradigm, with the State in the driver's seat, did indeed pursue a measure of growth with equity as the welfare system gradually expanded and real wages grew in a sustainable manner, even a few years after the Asian crisis and the subsequent gradual transition into the supply-side neoliberal paradigm. Nonetheless, the fact that, from inception, State policy also established a two-tier unequal welfare system –a strong one protecting the so-called regular workers and a weaker one protecting all other workers– facilitated the push for neoliberal structural

142 Yeon-Myung KIM: Towards a Comprehensive Welfare State in South Korea; Second conference of East Asian Social Policy Network, the University of Kent, June-July, 2005
143 National Pension Service: Benefits, consulted on 30 August 2013 on http://english.nps.or.kr/jsppage/english/scheme/scheme_03.jsp#gnbTop
144 Yeon-Myung KIM: Towards a Comprehensive Welfare State in South Korea; Second conference of East Asian Social Policy Network, the University of Kent, June-July, 2005.
145 Ji-Whan Yun: Labour market reforrns in Japan and the Republic of Korea, International Labour Review; Dec 2011
146 US Social Security Administration: Social Security Programs Throughout the World: Asia and the Pacific, 2010, South Kroea, consulted on 3rd September 2013.
147 Ji-Whan Yun: Labour Market Polarisation in South Korea – The Role of Policy Failures in Growing Inequality, Asian Survey, Vol. 49, No. 2, 2009, University of California Press.
148 KOrean Ministry of Employment and Lbour: Major Statistics, consulted on 3rd September 2013.

reforms to transfer many regular workers to the new dominant ethos of casualisation of the workers' labour rights by imposing neoliberal labour flexibilisation laws. This has greatly contributed to making the non-regular workers category the standard; making, in this way, the precariat the prevailing working class in Korea and, consequently, replacing the trend of decreasing inequality, recorded until 1997, with labour polarisation.

The State has attempted to address the growing inequality by consolidating the Welfare System and making it universal arguing that the framework needs to be anchored on a good measure of solidarity. Yet, the fact that millions have been driven to such a high state of job precariousness have made many of the welfare entitlements a moot point. Indeed, as we have seen, millions already prefer not to pay their social security contribution due to their low and unstable income. Thus, the usual contradictions of capitalism are again exposed here. If a State upholds a marketocratic ethos, whose only purpose is to maximise shareholder value, it needs to eliminate or at least minimise all the social entitlements designed to provide a degree of balance and some measure of equity. No one can have it both ways. You cannot apply Confucian values that put the welfare of the community first and concurrently support the maximisation of shareholder value, because this will always come, predominantly, from the fair share that belongs to workers in the form of wages, labour rights and the Welfare State. That is why true democracy, whose only purpose is the pursuit of the welfare of every rank of society, and capitalism are an oxymoron. Whether Confucian values have been determinant in Korea's emergence as a developed capitalist society is rather debatable. Yet, what is clear is that if Confucianism ever had a strong influence on Korea's economic path it has been almost completely obliterated by the sheer greed of global capitalism in which Korea has finally been engulfed. Korea's "democratic" era has imposed the supremacy of the market over people and planet because today's "liberal" democracy is really a mock democracy, a euphemism for marketocracy. Hoogvelt argued at the end of last century that *East Asian capitalism was a case of successful industrialisation that combined growth with equity from inception... and it was also exceptional in so far as State intervention led the modernisation process rather than individual enterprise, the free market and representative democracy.*[149] Today, that is no longer the case. Hence, as in the rest of the world, in Korea the market reigns supreme.

149 Ankie Hoogvelt: Globalization and the Postcolonial World, The John Hopkins University Press, 1997.

PART II

❖ *Korea's major differences with Iberian America's development path*

The purpose of this section is to address the question of what Korea has done differently from other developing countries to have dramatically superior results. Korea's emergence from a very dire economic situation and its inclusion in the group of developed capitalist societies is almost an exception to the rule. No other developing country has been able to improve its material quality of life as dramatically as Korea. Singapore and Taiwan also developed significantly their economies but not nearly at the level of Korea. Iberian America is fighting new waves of the customary centre-periphery system of exploitation, and, together with Africa, both are engulfed in neoliberalism with conspicuously unsuccessful results. Iberian America, in particular, began its industrialisation and development era before Korea but now most countries are significantly behind Korea in almost all spheres of social and economic development. Inequality is immensely superior to Korea's and poverty levels in several countries are getting worse. One major consequence is that many countries are now immersed in deep social conflicts. There is a permanent neoliberal push to reduce the role of government to its minimum expression and privatise the public matter, particularly the Welfare system, and eliminate many social, economic, civil, political and cultural rights. Real wages in many countries in the region used to be several times greater than South Korea's in the 1970s. As could be expected, now the relationship has reversed. Brazil and Mexico, the largest economies in the region, applied the import substitution strategy to launch their industrialisation era a decade before Korea; but the criteria applied to manage it and the way they have dealt with neoliberalism have drawn far less positive results. Mexico, in particular, has imposed an extreme neoliberal ethos that has almost completely destroyed the social fabric and has forced the vast majority of the population to suffer, at the very least, some degree of poverty. Given that Korea's and Iberian America's development paths have rendered quite contrasting results, this section will expose their most relevant differences to illustrate Korea's success in uplifting its society from almost famine to the ranks of developed economies. By the same token, it will also expose the concrete policy failures of Iberian America, particularly in Mexico, given its transformation into an economic state of sheer neoliberal fundamentalism.

A succinct answer to the question of Korea's success vis-à-vis Iberian America is that it applied economic policy with a staunchly nationalistic lens from inception in pursuit of growth with equity, and, until recently, has fought to maintain in check the global neoliberal assault under the same lens. In other words, although the system is unquestionably capitalist and, thus, suffers of all its inherent contradictions, Korea's regimes, both authoritarian and of representative democracy had a meaningful degree of unrelenting social commitment, quite possibly imbued by Confucian values as opposed to Iberian America's Western culture, where individualism stands out prominently. Consequently, at its root, Korea's economic policy during all of its development stage, until the Asian crisis, sought an endogenous development anchored on demand-side economics and applied a degree of social *fordism*, regardless of its contradiction with the natural instinct for shortermism and maximisation of shareholder value prevalent in the chaebol corporate culture. Indeed, Korea took the decision from inception of its industrialisation path to become an exports powerhouse, but, albeit initially anchored it on cheap labour, it also concurrently worked to develop the economic structures that gradually would increase the added value of its exports with high-skilled labour and incipient but endogenous technologies. The Korean State policy was essentially, for the most part of its development era, a "growth with equity" development paradigm anchored on nationalism. To accomplish this, it was indispensable to establish a State-driven, instead of a market-driven economic policy, through the *dirigiste State* to discipline the Korean conglomerates. In this way, all other elements, such as FDI, trade policy, monetary policy, R&D, Welfare State and others were envisioned in the context of a nationalistic pride to grow with equity. Hence, while Iberian America opted and stuck to a capital-intensive strategy that disregarded the need to provide employment in the formal economy, Korea initiated its development path with a labour-intensive strategy that gradually achieved full employment. It could have not been accomplished in any other way.

➡Fervent nationalism translated into growth with equity

A comparison with Mexico's industrialisation path provides an excellent illustration of the concrete differences in economic philosophy and management, for Mexico constitutes a paradigmatic case of economic development failure, exposing precisely what should not be done in economic development. As in the case of Korea, Mexico also had a mixed economy with the State in the driver's seat of development and economic policy, with a strategic development plan set out to be implemented every six years. It had many State-owned enterprises, it nationalised the oil and power energy industries and it anchored its development on endogenous growth through import substitution, without seeking to become an export oriented economy. It also practiced –and continues to do so– a high degree of crony capitalism, with about ten large business conglomerates that remain, with all the implications of its inherent conflicts of interest and a monopolistic culture induced by the State. Carlos Slim, often ranked as the richest man in the world, is the owner of the largest telecommunications private monopoly. Yet, in deep contrast with Korea, the political/business oligarchic class has always refused to break the dykes that hinder social mobility. Opposite to Korea's model, Mexico's model is anchored on the customary centre-periphery partnership. There is an implicit partnership between the metropolises, their corporations and the Mexican political/business oligarchy, to maximise benefits by extracting maximum value from Mexico's natural and labour endowments. The nationalistic fervour rather evident in Korea's capitalism, is nowhere to be seen in Mexico's case. In other words, there is an implicit agreement to profit over people and planet, to maintain at all costs a system of exploitation. Furthermore, many of Mexico's former large private conglomerates have been sold to foreign multinationals in many sectors, such as banking, retail, brewing, airlines, steel, automotive, and so on. By the same token, the State, despite the nationalisation of the oil industry in 1938 and of the power energy industry in 1960, has backtracked from 1982 onwards, pushing unrelentingly to dismantle the mixed economy, privatise everything and guarantee high returns on investment to their foreign partners and tutors. Fervently following the dictates of the Washington Consensus, privatisation has been so pervasive that, for example, Mexico no longer has passenger train service, for the private buyers of the rail tracks were not interested in providing passenger service and the government felt no social responsibility to do so. Since 1982, the oligarchy in power has in effect pushed back to reimpose the conditions prevalent in the times of Diaz's dictatorship before the Mexican civil war of 1910, putting vast sectors of the economy in the hands of foreign multinationals. The last push to consolidate the sheer neoliberal fundamentalism is to privatise the energy sector, which is considered by most Mexicans a matter of national security and the last bastion of nationalism. As in Korea, Mexican governments are also authoritarian, a sort of a soft dictatorship, that has carried out mock electoral processes every six years, with the same party in power for seventy years until 2000. The only subtle difference is that another far right pro big-business party has been allowed to "win" new mock elections designed to block the centre-left opposition from winning an election. Immersed in an absence-of-the-rule-of-law ethos, the last administrations have enjoyed such impunity that they now openly act as business agents that no longer follow any type of development mission, and bend the laws systematically in the interest of what can be regarded as, by all means, a super oligarchic Mafia State.

The backpedalling of the Mexican State in its socioeconomic policies is rooted in the absence of a moral commitment amongst most people in power to make their country a place where the majority of the population enjoys a dignified quality of life. When endogenous economic development is managed with some degree of social commitment, it produces a social progress that spills over all ranks of society. For this reason, its limits depend upon public management and the disposition of domestic capital to contribute to the generation of aggregate demand in a sustainable manner. To be sure, in both countries there was not much of a good disposition among business groups to this end. Yet the Korean State managed the economic structures in such a way that the value added in the industrial sector would increase exponentially over time in a sustained way, and thus, that wages would naturally increase in real value. Moreover, despite the natural mindset for profit maximisation, the Korean business class did consider that the generation of aggregate demand would benefit its business, for this would allow substantial social mobility with a larger domestic market that would gradually decrease Korea's dependency on export markets. That was not the case in Mexico, even in sectors where value added was growing. The real aim of those who wield the power in Mexico in itself is not development, but the assurance of the old oligarchic structures of exploitation, which adapted to the new postwar environment in harmony with the metropolises of the system. Although the international environment from 1945 to the mid-seventies is very favourable to Keynesian endogenous development, the oligarchy's opposition to any social development that decreases the profit margins they were customarily used to is adamant and systematic. The defence of the famous comparative advantages in alliance with the transnational corporations of the metropolises produces fierce opposition to any social gain. Hard evidence shows that the defence of comparative advantages included prominently the use of capital flight to induce planned devaluations, as is the case in 1976, which in turn reinforced its comparative advantages, bringing down labour costs as soon as they adjusted their prices. An analysis, following the Krugman-Taylor model –using data from the Bank of Mexico– demonstrates that beyond a GDP contraction during devaluations, the labour's share of income contracts, for employers significantly adjust their prices as their foreign costs increase, generating inflation, whilst real wages drop in value. In this way, while GDP dropped 3,5% in 1976, the labour's share of income dropped from 34% to 22% while the share of capital rose from 66% to 78%; a purely plutocratic effect.[150]

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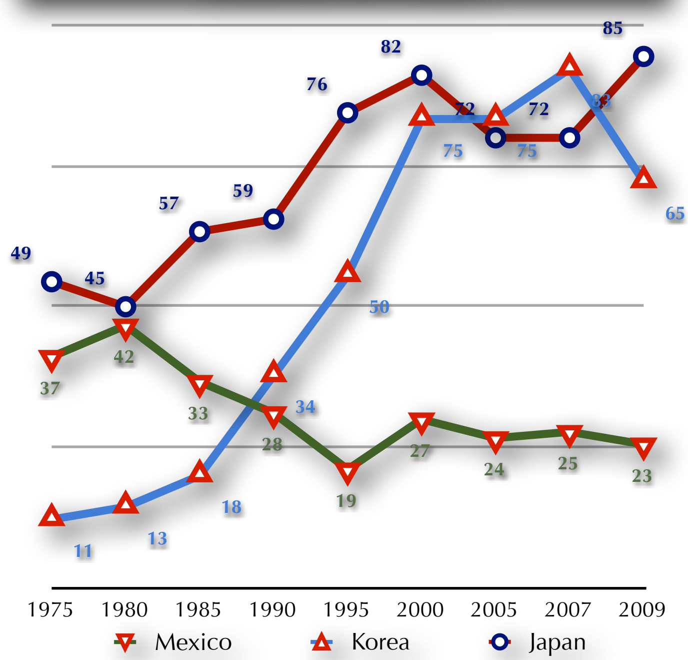
150 René Villarreal, La Contrarrevolución Monetarista, Oceáno, 1984.

When global capitalism was demand-sided, following WWII, economic policy in Mexico followed through. When the global system shifted to the supply side, Mexico's economic policy mimicked the changes and, without a qualm, fell in line with the system in the early 1980s. Thus, there was no commitment to development; the oligarchy just adapted to the times to secure its share in the centre-periphery neocolonial relationship. In this way, from this perspective, the Mexican developmental model opts for setting a limit to endogenous economic development by fully adhering itself to the model of foreign direct investment attraction. This is carried out by offering permanent comparative advantages, which allow the oligarchy and its foreign partners to achieve profit margins well above what the same transnationals were used to extracting in developed economies. The main factor in Mexico's comparative advantage is always to provide labour costs at labour-bondage rates. Besides offering miserable wages, the robber-baron class offers all kinds of tax incentives and infrastructure to their foreign investor partners. In exchange for participating in the joint ventures –which until 1982 required a minimum of 51% of Mexican equity– the oligarchic class offered all kinds of incentives with labour at poverty rates first in line. According to Spero, this scheme, which was used by many developing countries during the Keynesian era, generated incredible comparative advantages for the North. In 1978 the income of US multinationals in the South accounts for 35% of all its revenue abroad, even though the South only represents 25% of its FDI.[151] This is possible because productivity in the South is 65% higher at the expense of the misery of workers. Therefore, the responsibility of the collapse of the Mexican development model –supposedly anchored on endogenous growth– has nothing to do with populism –a favourite euphemism used by the oligarchy to refer to social demands, a shortage of FDI or a lack of State support of Mexican enterprises, among other myths. The direct responsibility belongs to the Mexican governments and their big business cronies who play a zero-sum game to protect their old structures of exploitation. At the core of the limits of Mexican development lies the enrichment of its plutocracy, anchored fundamentally on the appropriation of the surplus value of wages, as its archetypal of life. That is, the limits of the postwar Mexican model of import substitution are imposed premeditatedly and perversely by its oligarchy, which lacks any political will to opt for an inclusive and dignified life for the majority, who are always despised and racially discriminated. There was no interest whatsoever in a business model that would have produced aggregate demand, induced social mobility and increased the volume of oligarchic wealth. The real Mexican economic model, and of much of Iberian America, is the continuous adaptation to the times of their old centre-periphery relationship centred on foreign direct investment, allured with higher than normal returns on investment by anchoring the sales' pitch on "growth with inequity" through the customary comparative advantages of the regions' natural and labour endowments. Korea, as noted previously, did the opposite, by always relegating foreign direct investment to the back burner of its development model.

Chart 2.1: Living-wage equalisation index of total hourly compensation costs with equivalent US costs for production-line workers



And so, Korea's demise at the end of the war was transformed in a few decades into an impressive surge that left Mexico and the rest of Iberian America decades behind in socioeconomic development. To begin with, it should be noted, from the perspective of the pursuit of social wellbeing –the essential responsibility of any truly democratic government– that in 1975 real total compensation costs for production-line manufacturing workers in Korea were less than a third the equivalent Mexican costs, and by 2007 they had transformed into 3,3 times these costs in Mexico, as previously noted. Put another way, by comparing them vis-à-vis US equivalent compensation costs, Mexico's real wage equalisation index with the US was 37 or 3,4 times Korea's 11 equalisation index with the US in 1975. By 2007, just before the effect of the global crisis unfolded, the roles had completely reversed, for the Mexican real wage equalisation

151 Joan Edelman Spero, The Politics of International Economics: St. Martin's Press, 1981

index with the US was 25 or less than a third of Korea's 83 index as shown on chart 2.1.[152] The difference is not just abysmal but shameful as well. The chart also exhibits that Mexico's equalisation index with US equivalent wages has dropped in real terms nearly 50% from its height in 1980, whereas Korea's index has increased dramatically and it stood at more than four-fifths US wages before the global crisis. Lastly Korea's manufacturing labour costs are now at similar levels of Japan's, whereas Mexico's are many decades away.

Thus, what lies at the core of these startling divergent results? If we reduce it to one primary reason, despite the evident US tutelage, Korean governments did not submit themselves as servants of the metropolises of the capitalist world system, particularly the United States, and opted for growth with equity, understood as their core national interest. As we know, the governments of Korea were also authoritarian, and even now are far from hovering in the realm of true democracy. However, unlike the Mexican regimes, they have a strong degree of dignity and pride about their national identity, which, until 1997, committed them to somehow pursue the social development of their people by providing access to the social assets necessary for people to develop their aptitudes to earn a dignified living.

In his analysis of the development of East Asia, Hoogvelt states that the relative success in the social development of the so-called seven East Asian Dragons (South Korea, Hong Kong, Indonesia, Malaysia, Singapore, Thailand and Taiwan) caused opposing analysis according to the political economy perspective context. Between 1965 and 1990 these nations grew at a faster rate than any other region, including the rich countries, and almost three times the rate of the countries in Iberian America.[153] Thus, it was necessary to develop a theory to explain their high performance. Hoogvelt recounts that the promoters of the so-called modernisation theory –closely aligned with the neoclassical theory that fathered neoliberalism– attempted to justify it by appealing to their participation in the international economy with the comparative advantages resulting from the natural share of each of the factors of production –especially low wages. In contrast, neo-Marxist and structuralist economists who developed the dependency theory, well known in Iberian America, such as the Argentine Raúl Prebisch, initially considered that success in developing East Asia was apparent and temporary, for the metropolises were just exploiting the comparative advantages of the region to compensate for their loss of competitiveness, without this translating into actual sustainable social development.

Nonetheless, when it became clear that the performance of these economies became sustainable and Korea, in particular, improved significantly in many indicators, especially in the sharp increase in real wages, both theories were forced to partially converge on a conclusion, as recounted by Hoogvelt. This was that the East Asian capitalist development placed the State as the principal agent of the economy, so that economic growth had a significant dose of equity. Others, such as the theorists of neo-Listian political economy[154] also agreed that the success of the East Asian model was due to the strategic role of the State to harness domestic and foreign economic actors to the national economic interest, coining the term developmental states. Others, such as the sociologist Peter Berger explain it by arguing that the development strategies that combined growth with equity since the start of economic modernisation succeeded, in contrast to the fallacious argument of the oligarchies, predominantly in Iberian America, that insists, that you must first create wealth to then distribute it, through the trickle-down effect, which has never materialised. Other theories, such as the New Trade Theory initially associated with Krugman and other authors who departed from the neoclassical tradition, argued, inspired by the success of East Asia, that the real world is quite different from that assumed in neoliberal theory, for domestic markets do not work according to the invisible hand and suffer from distortions. Therefore, the strategy of comparative advantage is not effective for development, but trade is, which has competitive advantages of specialisation. That is, countries do not necessarily specialise and trade to benefit from their comparative advantages, but also do so in those areas where specialisation in itself will generate increasing profits. This fact, coupled with market distortions, requires State intervention to create and promote dynamic advantages, such as supporting the development of new technologies;[155] the antithesis of the economic philosophy of the Iberian American oligarchies.

However, although the consensus on East Asia's success focuses on the authority of the State to combine growth with equity, it was evident before the Asian Crisis that the region still had much work to do –with the exception of Korea– to lift millions of its citizens out of poverty. Real wages in Taiwan, Singapore and Hong Kong –for production workers– have

152 The Jus Semper Global Alliance: Table-T4 – Living-Wage-Gap and Equalisation analysis (vis-à-vis the US) for production manufacturing workers in purchasing power parity terms 1975-2009, http://www.jussemper.org/Resources/Labour%20Resources/Resources/T4rcrslbr.pdf, consulted on August 2013.
153 Ankie Hoogvelt: Globalization and the Postcolonial World, The New Political Economy of Development. The Johns Hopkins University Press, 1997. P. 202
154 Proponents of a State-driven political economy.
155 Ankie Hoogvelt: Globalization and the Postcolonial World, The New Political Economy of Development. The Johns Hopkins University Press, 1997, p. 207.

not improved to the same degree as in Korea. Although wages are far less unworthy than those of Mexico and Brazil, a substantial part of the growth was achieved on the backs of workers. Hence, Walden Bello and Stephanie Rosenfeld, critics of the East Asian model, conclude in their study of the limits of the region's model that it becomes evident that economic models that counterpose market efficiency with equality, and economic growth with ecological balance are obsolete.[156] Ergo, any system that puts the market welfare over people and planet welfare is unsustainable and predatory. Therefore, despite the achievements, the East Asian example makes clear that sustainable development must put people-and-planet over the market permanently, harnessing the innate pressures of the system, namely the quest for maximum efficiency and competitiveness, to a balance that confers absolute priority to the long-term welfare of people-and-planet. That is, a balance must always reconcile conflicts between market and people-and-planet in favour of the latter.

➡ Selective liberalisation of trade policy

Another major contrast is trade policy. The Korean model focuses on government support for certain sectors identified with the ability to be competitive globally (automotive, electronics, petrochemicals, semiconductors...), thus selectively opening the market only in those sectors where global competitiveness is reached. In many Iberian American countries instead, governments sought to sustain their dependency privileges by opening their economies indiscriminately through bilateral or regional trade agreements with the US and, eventually, the EU. Again, the Mexican case is the most extreme. Mexico joined NAFTA in 1994, signed the EU Agreement in 2000 and opened its economy completely, except for the energy sector, which was nationalised after it was in the hands of foreigners for half a century. The results have been a disaster for millions of Mexicans who have been forced to migrate illegally to the US in search of a livelihood that is no longer an option in Mexico. Now, as I write this paragraph, the Mexican government has sent initiatives to privatise the energy sector despite staunch opposition from 80% of the population.[157] Korea instead refused for decades to sign trade agreements, liberalising only those sectors that reached global competitiveness. Only after five years of negotiations it finally signed trade agreements with the EU and the US, which became effective in 2011 and 2012 respectively.

In contrast with Mexico, most of South America is abandoning its traditional centre-periphery relationship and is moving towards forming a regional supranational block. Brazil, Argentina and their small partners in the region, have been following another path by reducing their dependency with the metropolises. Thus, in the early 1990s, Brazil, Argentina, Uruguay and Paraguay established Mercosur, a free-trade block to protect them from the strong full liberalisation push unleashed by the metropolises, prominently the US. The block is still in progress, with Venezuela and Bolivia recently joining as full members. The ultimate goal is to incorporate the ten Iberian American nations of South America into a block similar to the European Union, with free movement of goods and people and with its own currency. This new body is UNASUR, created to merge Mercosur members with the Andean Community of Nations (ACN), (Bolivia, Peru, Colombia and Ecuador) –the other South American trade block and Chile. The United States has systematically attempted to block UNASUR'S development by extending NAFTA to the entire continent, as the Free Trade Area of the Americas. However, many countries objected to the initiative, with Brazil and Argentina prominently opposing it and derailing it, given that this would allow the US to impose its rules, closely following the spirit of the Multilateral Agreement on Investment (MAI) –already embedded in NAFTA– on the Americas. Given its failure, the US has resorted to establishing bilateral trade agreements with Chile, Colombia and Peru, seeking to weaken the subcontinent by forming a US aligned block, along with NAFTA and the Dominican Republic-Central America Free Trade Agreement, following the customary centre-periphery dependency relationship.

➡ Home-grown know how

Home-grown know how is another major difference. In Korea's case, the government's *dirigiste* role stands out for a social commitment that does not hesitate to submit the forces of the world's capitalist system to the national priority of growth with equity. The goal is not the development of the domestic market in the sense of the Keynesian paradigm to generate aggregate demand backing it with a strong Welfare State per se, but to grow with equity to eliminate the dependency on the metropolises. This is particularly important in the case of East Asia. Thus, starting the postwar, the US put emphasis on the development of East Asia, especially Japan, South Korea, Singapore and Taiwan, shielding in this way the capitalist system against the threat of communism and securing its hegemony in the region. This implied that the United States accepted substantive asymmetric conditions in trade with these countries to promote development, which

156 ibid.
157 Rodrigo Vera Y Rosalía Vergara: Se opone 80% de los mexicanos a inversión privada en Pemex, Proceso, 3 September , 2013.

ultimately led to a strong dependency of these countries with the United States both in exports and technologies.[158] Yet, first Japan and then Korea worked to reduce their dependency to the minimum by anchoring their economies on the development of in-house technological and skilled-labour (human capital) endowments. In Iberian America's case, growth with equity was never on the governments' radar and, thus, R&D and skilled-labour were always disregarded. Instead, the centre-periphery relationship was carefully protected to maintain the oligarchic privileges by adhering to the prevailing economic and geopolitical interests of the metropolises, whatever they may be.

Closely linked to skilled labour is education. As noted previously, Korea regarded education as one of the most important national priorities from the outset, to the point that it has set an aspirational standard for the world, consistently excelling in test results. In great contrast, Iberian America lags behind and, once again, Mexico is the worst amongst the largest economies in the region, with an educational system that is consistently exclusive. A 2008 study found that almost half of school-age students in basic and secondary levels are excluded from the educational system. This is about 33 million Mexicans, a number larger than the number of Mexicans currently active in the education system.[159] According to UNESCO's Global Education Digest, Mexico's net enrolment in lower and upper secondary levels in 2010 was 71%. Such coverage is clearly lower than in countries such as Spain (95%), France (98%), United Kingdom (96%), United States (89%), Japan (100%), Korea (96%), and even lower than Argentina (82%), Chile (83%) and Brazil (77%*). Yet, where Mexico suffers a much worse lag is in higher education enrolment, with an offer that covers only 28% in 2010. This contrasts sharply with countries such as Spain (73%), France (55%), United Kingdom (59%), United States (95%), Japan (60%), Korea (103%), and certainly lower than Argentina (71%), Chile (59%) and Brazil (30%*). Coverage ratios include both public offerings (federal, state and municipal) and private education at all levels.[160] We have already seen that school quality has advanced so dramatically that Korean children have consistently achieved some of the highest scores internationally in scholastic tests. In Iberian America school quality is dismal. While Korea ranks in the top five in the PISA test, the largest Iberian American economies all have scores significantly below average and rank in the 44th to 58th range, with Argentina reporting the worst scores behind Chile, Uruguay, Mexico, Colombia and Brazil.[161] A study found that 52% of Argentine middle school students do not understand what they read.[162]

Korea's purpose in supporting the chaebol conglomerates was to develop global players with proven ability to develop technological and organisational economies of scale that would allow them to be among the top global players in specific sectors, such as shipbuilding, electronics, semiconductors and automotive. Both the chaebols and the Mexican conglomerates are owned by elite families and are oligarchic. Yet, the essential difference with the Mexican business groups, is that the Koreans over time have shown a superior business savvy, compounded with the State's resolve to discipline them to follow through with economic policy, developing domestic supply chains and investing in research and development to reduce its dependency on foreign licenses, as we have seen. All of this triggered fundamental multiplying effects that funnelled the benefits of increasing added value that would stay at home across vast sectors of the population, including prominently the working class. The Mexican State did not push the Mexican conglomerates to follow a model to reduce their technological dependency from foreign joint venture partners or technology licensing agreements. Technological development has consistently been relegated to the back burner of economic policy. Short-termism, seeking immediate returns on investments and the maximisation of shareholder value, has completely dominated both economic policy and business culture in Mexico and the rest of Iberian America. Indeed, Mexico's investment policy for several decades, and in most sectors opened to foreign investment, required a minimum of 51% Mexican ownership.[163] In other sectors, where foreign ownership was allowed at 100%, such as in the automotive industry, investment policy required 70% of domestic content in the parts used in the assembly plants. In fact, the sector, thanks to this policy, enjoyed for a while the best developed domestic supply chain with all its inherent dynamic effect benefits. Nonetheless, both with the assembly plants and with many of the domestic suppliers, technology was firmly in control of the parent companies or was licensed from foreign suppliers to which they had to pay royalties. The copycat approach followed by Korea, as the first step to technological independence, and home-grown R&D, were, and continue to be, minimally used in Mexico and the rest of Iberian America.

158 Álvaro J. De Regil, The Neo-Capitalist Assault – Development with Asymmetries: The Third World and its Post-War Development Strategies, Essay One of Part II (Asymmetric Order and Collapse). The Jus Semper Global Alliance, June 2001.
159 Federación Iberoamericana de Ombudsman: Educación: Sexto Informe sobre Derechos Humanos, Trama Editorial 2008.
160 UNESCO, GLobal Education Digest 2012. * Data for Brazil is for 2007.
161 Consulted on 28 August, 2009: http://www.oecd.org/pisa/pisaproducts/pisa2009keyfindings.htm
162 Juan Ignacio Irigaray: Emergencia educativa en Argentina, EL Mundo 14/09/2013
163 Michael W. Gordon: Observations on the Nature of Joint Ventures in Mexico: Are They Involuntary and Transitory Institutions?, Boston College International and Comparative Law Review, Volume 2, Issue 2 Latin American Commercial Law Symposium, 1/1/1979.

From this perspective, the key factor in how Korea and the industrialisation of Iberian America differ is not in the specific stages of production available in a country or if these stages include the most technological sophisticated processes, but rather with those who control technology through production tool hardware and software engineering as patents or licenses. Iberian America's industries often used the latest technologies available, but if the patents are foreign owned and there is no effort to gradually develop your in-house grown technologies through reverse engineering and R&D, the lion's share of the value generated and the control of economic development will remain with the metropolises of the system. To this respect, Smith makes a compelling argumentation of the implications of global capitalism, particularly of global production networks, on the welfare of communities, particularly in peripheral countries. He arrives at the conclusion that most of the profits and surplus remains not in any specific stage of production or in the most technologically sophisticated sections, but rather with those who control the licenses to machinery and software of the technological process used. This means that the firms that control technology through mechanisms like machine tool hardware or packages of software technologies as patents or licenses are in extremely powerful positions. Consequently, the control of the technologies necessary to design sophisticated equipment, products and production processes is fundamental in the development of a competitive economy in the sense that it is able to keep the largest share of the revenue generated by its companies and workers.[164] Brazil, one of the so-called BRIC economies, has relegated home grown technological development only to a lesser extent than Mexico, Argentina and the rest of the region, for some high-tech sectors have gradually developed their own technological capabilities and become competitive, such as Brazil's aeronautical, renewable fuels and electronic industries. Yet, as with the rest of the region, there has never been a consistent and permanent effort to develop a plan for a home-grown technological national chest in the industrial sectors with important opportunities to become technologically independent. Emphasis has been lax and heavily dependent on the government in power. In Korea, on the other hand, home-grown know how development has been a consistent national development strategy element in both autocratic and representative democracy regimes. Table 2.1 reflects how far behind the major Iberian American economies are from Korea in R&D expenditures, which spends more than Japan.[165]

Table 2.1 Expenditures for R&D (2005-2010)

Country	as a % of GDP
Korea	3,74
Japan	3,36
Brazil	1,16
Argentina	0,60
Mexico	0,40
Chile	0,37
Colombia	0,16

➡ Management control

The control and development of know how is also related to management control in joint ventures. South Korea's FDI deterring policy included a strong reluctance to cede management control to foreign investors in joint ventures. An emblematic case is the automotive industry. Korea started this industry in the 1960s, decades later than Mexico, Brazil and Argentina. Yet, in great contrast, Korea did not cede management control and invested in R&D. Indeed, a study on this sector in emerging markets points that *this is the only country that invested in R and D for product development, retained management control in joint ventures with multinational companies (MNCs), and had ambitious export targets. The industry in Brazil is older than that in South Korea, but indigenous product development capabilities are lacking and manufacturing competitiveness is limited even though the industry is entirely controlled by MNCs.* Moreover, the authors point out that gradually three Korean companies emerged: Daewoo, Kia and Hyundai, after gaining experience and knowledge from their joint ventures with foreign partners, but they never ceded management control.[166] Korean's were careful to keep at bay their joint venture partners. Keeping management control enabled them to make decisions that, otherwise, would have likely not been in the interest of Korea. The historical evidence clearly shows that the sustained growth of Korean wages, had employees worked for companies with management under control of foreign investors, would have been impossible, as we can see in Iberian America, India or Africa. Workers working for transnationals either directly or through outsourcing are consistently paid a miserable wage –in purchasing power parity terms– in comparison to the wage paid to a worker in the metropolises that does the exact same work. There is no equal pay for equal work but a political decision (Arghiri Emmanuel, 1969) of the foreign and domestic partners to exploit workers, for in both cases the owner of the licenses, patents, machinery, software and processes is the same, whether they do it in a centre or in a periphery country, and it bares no relationship with cost of living differentials. In the case of Korea, the fact that they

164 David A. Smith: Technology, Commodity Chains and Global Inequality: South Korea in the 1990s Review of International Political Economy, Vol. 4, No. 4 (Winter, 1997), Published by: Taylor & Francis, Ltd.
165 The World Bank: World Development Indicators 2013, Table 5.13 – State and Markets, Science and Technology, consulted on August 2013.
166 Avinandan Mukherjee Trilochan Sastry: Automotive Industry in Emerging Economies A Comparison of South Korea, Brazil, China and India, Economic and Political Weekly November 30, 1996

did not surrender management to TNLs and that for decades they were not much interested in inward FDI, coupled with their Confucian culture, empowered them, if they were willing to, to provide their workers with much higher wages.

This should not be construed, whatsoever, as the chaebols being magnanimous. There is no question that the major overwhelming factor producing a sustained increase in real wages was Korea's powerful labour mobilisations. Trade unions, as in Iberian America, had been coerced by the State and employers and were prominently corporatist organisations. Yet workers were more combative than in Iberian America and many mobilised to form dissident unions during the authoritarian period. Thus, despite labour repression, strikes had erupted since the late 1960s in export processing plants such as Signetics, Korea-Pfizer, Oak Electronics and GM-Saehan.[167] This improved labour conditions as demonstrated by the sustained rise of real wages in manufacturing, reducing the gap with equivalent US wages, at least since 1975, as shown on chart 1.5. Most assessments, however, point to 1987 as the year wages finally rose. Yet our source –labour data compiled by the US Department of Labour– shows a sustained growth of real wages in US dollars since the 1970s. Therefore, somehow, powerful labour activism, coupled with the commitment of the State to grow with equity and a slight degree of business acumen of employers to foresee the benefits of a growing domestic market, coalesced to cede the ground for the rise of real wages. It was also sustained labour activism that eventually succeeded in 1987, through its Great Workers' Struggle, in establishing a new floor in labour compensations, which put them in the same realm of labour compensations of workers in the metropolises of the system.

South Korea's emergence from war with the north began with an export-oriented strategy anchored on hunger wages and outright repression. Dictator Park followed a similar path but supported chaebol formation at the same time that micro managed them and made sure that they met production and export quotas. He repressed workers and reinforced the role of the FKTU as a corporatist trade union umbrella. The creation of export duty-free zones attracted Japanese and US transnationals but always as minority partners with no management control. They were regarded as arms-length collaborators of Park's regime and, thus, perceived by workers as their exploiters. In this way, dissident labour organisations mounted strong opposition against the TNLs presence in their country and constantly objected to allowing TNLs to have anything more than a minority position in their country. Labour disputes with the subsidiaries of IBM, Motorola, Tandy and Citibank in 1990 provide a good glimpse of the workers' rationale for their position. Labour leaders asserted that *multinationals do not enhance our technology or give us job opportunities for free*. They rejected the image of TNLs as partners, referring to them as a "pernicious influence." Moreover, for many, both blue and white-collar Korean workers, being employed by a transnational was tantamount to suffering "pain and humiliation", a psychological stigma that did not exist with joint ventures that were Korean majority-owned firms and that consequently kept management control with Koreans.[168]

In stark contrast, the maquiladora plants or in-bond plants of Mexico that began in the 1960s as export-assembly plants, have rarely been challenged by workers. Most are not unionised. Workers suffer systematic repression and their labour rights are customarily and openly violated. Furthermore, they truly do not provide any benefit to Mexico whatsoever, but to the owners of the plants. Initially they were owned by Mexican business groups but now they are also owned by foreign firms, including Korean firms. These true sweatshop plants are completely detached from the domestic economy given that local content averages 3%.[169] In Korea, export-processing plants were owned by Koreans and existed during the first stage of industrialisation. Gradually they were phased out as skilled labour and capital intensive plants replaced them. In contrast, Mexican maquiladoras were initially allowed strictly in Mexican cities located next to the US border. Now, in even starker contrast to Korea, they are allowed anywhere after the consolidation of the centre-periphery partnership of labour exploitation that ensued after the signing of NAFTA.

➡ Foreign direct investment

Foreign investment policy in Mexico with NAFTA is the worst possible kind of policy to harm a country. It is so harmful that it served as the basis of the until now defeated Multilateral Agreement on Investment (MAI). The MAI –proposed by the OECD– was an attempt to impose a global constitution of rights for the owners of global capital. Indeed, the MAI is the primary element of neoliberalism.[170] It is the clearest expression of its philosophy, where capital takes clear

167 Mauro Guillen: Organized Labor's Images of Multinational Enterprise: Divergent Foreign Investment Ideologies in Argentina, South Korea, and Spain, Industrial and Labor Relations Review, Vol. 53, No. 3 (Apr., 2000), Cornell University, School of Industrial & Labor Relations.
168 ibid.
169 Anne Vigna: Mexico: Hell is the Tijuana assembly line, The Jus Semper Global Alliance, A TLWNSI Issue Brief, September 2010.
170 Amigos de la Tierra: las empresas mandan: ¿quién paga la cuenta?, Agosto 2003.

precedence over states and their civil societies, for it tries to impose rules that virtually destroy the concept of sovereignty and true democracy. In the words of Pierre Bourdieu, of the *Collège de France*, the MAI is *designed to protect foreign corporations and their investments from national states that aim to call into question any and all collective structures that could serve as an obstacle to the logic of the pure market: the nation, whose space to manoeuvre continually decreases; work groups, for example through the individualisation of salaries and of careers as a function of individual competences, with the consequent atomisation of workers; collectives for the defence of the rights of workers, unions, associations, cooperatives; even the family*.[171] The MAI intended in effect to sue states as if they were corporations. Yet, this attempt is a reality in NAFTA. Indeed, the case of Metalclad's victory against the Mexican State is emblematic. Chapter Eleven of NAFTA stipulates that disputes between companies and NAFTA states will be examined by an international commercial court, acting in accordance with the ICSID[172] Convention –a World Bank-linked institution– (on the Settlement of Investment Disputes between States and nationals of other states).[173] In this way, Chapter Eleven of NAFTA imposes the tutelage of the owners of the market over the sovereignty of the states and is positioned 180 degrees from Korea's policy on FDI. Table 2.2 shows the latest figures on the stock of inward FDI for Korea and the major Iberian American economies, its percent of GDP, the Human Development Index and the Gini Index.[174] Korea's FDI deterrent economic policy is clearly observed vis-à-vis the major Iberian American economies. Chile's FDI stock as a percent of GDP is six times Korea's and at least 2,5 times greater than any of its regional neighbours. Yet, Chile's human development, ranked 40th in the world, is far below Korea's, which is ranked 12th in the world, and only slightly above Argentina's, which is ranked 45th. Chile, regarded by many analysts as the darling of well applied neoliberalism, records one of the highest inequality indices, ranking among the bottom 15 Gini indices, along with many Iberian American countries, the most unequal region in the world. In fact, of 19 Iberian American countries, only six have worse Gini indices than Chile in the latest UNDP's HDI report. Mexico's FDI stock, as a percent of GDP is only twice Korea's, mainly due to the energy sector still being out of bounds to foreign investors, but, as could be expected, its HDI and Gini indices are light years away from Korea's. Conspicuously, Argentina has the lowest FDI stock among the largest economies in the region and also the best inequality index. We cannot directly correlate these variables, but it is clear that Korea's FDI deterrent policy has been a major strategic factor in the success of Korea's home-grown capitalism and in the dramatically better social development indicators than those of any of the Iberian American countries. It goes without saying that all the aforementioned Iberian American countries ranked much higher in UNCTAD 2005 transnationality index, previously covered, than Korea.

Table 2.2: Foreign Direct Investment stock in 2012, Human Development Index (HDI) and Inequality Gini Index

Country	FDI Inward Stock (millions of dollars)	As a percent of GDP	HDI	Inequality Gini Index 2000-10
Chile	206594	78,0	0,819	52,1
Brazil	702208	31,2	0,73	54,7
Colombia	111924	30,3	0,719	55,9
Mexico	314968	26,8	0,775	48,3
Argentina	110704	23,3	0,811	44,5
Korea	147230	13,0	0,909	31,0

None of the major economies in Iberian America sustained a single policy for industrialisation, defining how big a role FDI was going to play in their development plans. Most countries in South America suffered from continued political instability, with frequent military take overs that usually repressed labour unions, but that at times regarded foreign investors as necessary evils, at times as outright enemies or villains and some times, as in Chile's Pinochet dictatorship, as friendly partners. A comparative assessment of Argentina's FDI policy is illustrative of the region. It identifies a track record of alternative policies oscillating between restrictive and permissive FDI policies as part of Argentina's import-substitution strategy, depending on whether the regime was authoritarian, populist, or so-called democratic, as well as, depending on the prevalent mentality of organised labour, sometimes harshly critical of foreign companies and sometimes regarding them as necessary.[175]

171 Pierre Bourdieu, "The Essence of Neoliberalism," Le Monde Diplomatique, December 1998.
172 International Centre for Settlement of Investment Disputes.
173 Fernando Bejarano González: El conflicto del basurero tóxico de Metalclad en Guadalcázar, San Luis Potosí. En: Laura Carlsen, Tim Wise, Hilda Salazar (Coord.): Enfrentando la globalización Respuestas sociales a la integración económica de México. Colección América Latina y el Nuevo Orden Mundial. México: Miguel Ángel Porrua, Universidad Autónoma de Zacatecas, Global Development and Environment Institute Tufts University, Red Mexicana de Acción Frente al Libre Comercio, 2003.
174 UNCTAD: World Investment Report 2013, Global Value Chains: Investment and Trade for Development; UNDP: Human Development Report 2013, The Rise of the South Human Progress in a Diverse World; World Bank, World Development Indicators: GDP (current $), consulted on 12/9/2013; OECD Extracts: Income distribution and poverty, Gini at disposable income post taxes and transfers for 2010 (Data extracted on 10 Jul 2013).
175 Mauro Guillen: Organized Labor's Images of Multinational Enterprise: Divergent Foreign Investment Ideologies in Argentina, South Korea, and Spain, Industrial and Labor Relations Review, Vol. 53, No. 3 (Apr., 2000), Cornell University, School of Industrial & Labor Relations.

However, this has been changing in a consistent manner into a clearly nationalistic/protectionist trend for over a decade. Indeed, as part of the path spearheaded by Brazil and Argentina to reduce their economic and political dependency on the metropolises, several events in the region have ensued signalling a retrenchment from previous neoliberal policies into a growing nationalistic and regional element that is weighing heavily in the new policies. The most prominent is their commitment to build a regional trade block with Mercosur and, ultimately, a supranational union with UNASUR. They have also made a 180 degree turn in the foreign investment policy for their strategic energy sectors. Brazil and Argentina privatised fully or partially their oil industries in the 1990s, but now, in stark contrast with Mexico, they have reversed their previous position and are taking full control of their oil sectors, relegating foreign investors to a minority position.

The above notwithstanding, an event even more worthy of mention is Brazil and Argentina's policies to increase the labour share of income, which signals a drastic break with the customary model of labour exploitation entrenched in Iberian America.

Brazil made a decision that is both transcendental and historical due to its paramount effectiveness in the reduction of poverty in a very meaningful manner and in the span of little more than a decade. Beginning in 2010 the Brazilian State has been increasing the real minimum wage annually, until 2023, following the simple rule of increasing nominal wages by applying the rate of inflation plus the GDP growth recorded two years earlier. Without a doubt, such policy will gradually transform Brazilian wages into living wages. In this way, Brazil made a commitment to close the wage gap prevailing between current Brazilian labour compensations, still undignified, and the living wage ethos prevailing in developed economies, within the current market context. The commitment was passed into law during the Lula government and, thus, the Dilma Rousseff administration has followed through with its execution. At the rate real wages are growing, they will not reach a living wage character by 2023, but undoubtedly labour compensations will have made a great stride in closing the living wage gap by that year.[176]

Argentina traditionally enjoyed the highest standard of living in Iberian America for most of the Twentieth Century. In the first part of the century, although the economy was heavily dependant on foreign exchange for the export of agricultural products, Argentina was considered one of the richest countries in the world. Real wages had a very favourable gap vis-à-vis real wages in many countries in Europe, a factor that attracted millions of European immigrants to populate much of its, until then, scarcely populated territory. However, during the second part of the century, despite its focus on industrialisation through import substitution, Argentina experienced a long period of recurring political and economic crises, with high inflation rates becoming a permanent feature of its economy. Military coups, deteriorating terms of trade for its agricultural exports and an inconclusive import substitution strategy did not allow Argentina to become a developed economy and instead descended into a middle income economy with a deteriorated standard of living and increased inequality. At the end of the eighties, Argentina adopted the recipes of the Washington Consensus and experienced a short bout of economic boom at the very end of the century. Yet the laissez-faire opening of Argentina's economy actually resulted in its complete collapse due to the sheer speculative and predatory basis upon which it was anchored. With the abandonment of demand-side economics in favour of a sheer neoclassical approach, real wages –as in the rest of Iberian America– deteriorated substantially and inequality grew exponentially until the economy collapsed in 2001-2002. Nonetheless, sheer neoliberal governments were overthrown by the people and, since 2003, Argentina has moved from a sheer laissez-faire to a far more cautious economic policy ethos –with some measure of regulation, and a less privatised and a more demand-side economic approach. Left-of-centre governments have made a point of recovering real wages. They have not implemented through legislation a precise formula to increase real wages –as is the case with Brazil, but they have certainly been capable of recovering wages at an impressive pace. This has translated into a sustained recovery of real wages. Hence, manufacturing real wages in particular are at their highest level since at least 1996, more than doubling their previous real value during the short neoliberal boom. This has translated into a 429% increase of nominal wages in US dollars between 2002 and 2012,[177] which, after adjusting for inflation –using the MIT's Billion Prices Project" estimate,[178] translates into an increase of 84% in its living-wage equalisation index with equivalent US wages.

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176 See: Alvaro J. de Regil: Brazil: In perfect harmony with TLWNSI's concept, The Jus Semper Global Alliance, a TLWNSI Issue Brief, January, 2010.
177 The Jus Semper Global Alliance, See appendix: Table -T5 – Living-Wage Gap and Equalisation analysis (vis-à-vis the U.S.) for all employed in the manufacturing sector in purchasing power parity terms 1996-2012 for Korea and selected economies.
178 Argentina's official inflation rate has become controversial in the last few years for the government has been accused of manipulating the data. Most analysts question the official rate reported by INDEC, the official statistics bureau responsible for this measurement. While INDEC reported a 9,5% inflation rate for 2011, most estimates more than double it. The "Billion Prices Project" from MIT reckons real inflation to be at 23,99%.

Both Brazil's and Argentina's policies deviate from the traditional centre-periphery model prevalent in the region, in congruence with their current public policies.[179] Yet the challenge is to consolidate the construction of a new paradigm that is still too far from the growth with equity concept followed by Korea during its development era. Such positive events may be assessed as policies that are too little and arrived too late, given the unrelenting push worldwide for consolidating the, nonetheless, unsustainable supply-side neoliberal paradigm. Hence, all countries are now experiencing fierce pressure to drastically cut real wages and to casualise labour rights with the sole aim of increasing shareholder value.

As previously noted, Korea was able to consolidate its labour share of income in a plateau that is commensurate with the labour share's of developed economies. Consequently, since the late 1980s Korea is no longer able to compete in low wages with South East Asia, China or Iberian America. What Korea has done instead is advance Korea-Inc, with a nation-centred yet outward-looking strategy shifting labour-intensive production to peripheral countries where it can still extract much of the surplus generated at a miserable labour cost. Korea-Inc is replicating the process of capital accumulation historically applied by the metropolises of the system. Concurrently, Korea has exerted downward pressure on real wages since 1997 despite facing strong popular resistance. It has also made great strides in developing its home-grown technological know-how, which marginally compensates by creating higher paid jobs. Yet, as Smith asserts, politics will play the bigger role on what happens next: *The future will not be determined by 'economics' alone: moving up or down in commodity chains is integrally related to political dynamics in host societies, as well as political pressures in the core (like the US protectionist thrust)*.[180]

➡ Monetary policy management

Another major factor defining the differing development paths followed by Korea and Iberian American countries was Korea's superior prowess in managing monetary policy and financial flows. From the 1970s until the end of the Twentieth Century, Brazil, Mexico and Argentina, suffered from continues economic crisis due to the mismanagement of financial flows and monetary policy. Frequently this was due to corruption closely linked to sheer crony capitalism, which triggered big currency devaluations and hyperinflation, particularly in Brazil and Argentina but certainly in Mexico as well. Recent history is filled with major scandals filled with deliberate moral hazards that had a direct impact on monetary and fiscal policy, the levels of both public and private indebtedness and the management of the banking systems. The recurring crises constituted the gateway for the financial institutions of the metropolises –through their IMF/WB re-structural rescue schemes– to force the premature opening of the economies, the derailment of past development strategies and the loss of sovereignty in exchange for guaranteeing to the regional oligarchies the sustainability of their grip on power with the support of their tutors.

In Mexico, again in the extreme of the scale, the banking sector was expropriated by the State during the 1982 debt crisis, after being under domestic private owners for most of its history. Then the banks were privatised again through a series of hugely crony capitalistic schemes, engulfed in deep corruption and embodied in blatant embezzlement schemes that subsequently bankrupted many of them. The banks's portfolios were gradually detoxified and the banks rescued at taxpayer's expense (Fobaproa scandal) to then be sold again to foreign banks. The level of corruption is so mind boggling that it ensued a rare Korean assessment. The assessment provides a conclusion illustrating the moral hazard that tainted the management of the system: *the Mexican experience indicates that government intervention may cause serious moral hazard problems. Pervasive mismanagement and cronyism in Fobaproa indicates that huge public money was used to save rich bankers and businessmen who were responsible for reckless lending practice or borrowed money illegally from banks and did not pay back.*[181] Today, close to 90% of the banking sector is owned by major foreign banks, particularly, from Spain, the US, Canada and the UK. Countries with banking systems in the hands of foreigners are in rather weak monetary and development policy positions. Credit decisions in the system are typically detached from the productive financing needs of domestic enterprises, for they are subject to foreign shareholder interests, which in turn jeopardise the reactivation of lending for production and development.[182]

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179 See: Alvaro J. de Regil: Argentina's manufacturing living-wage gap: still a ways to go but steadily closing in, The Jus Semper Global Alliance, a TLWNSI Living Wage Assessment, September 2011.
180 David A. Smith: Technology, Commodity Chains and Global Inequality: South Korea in the 1990s Review of International Political Economy, Vol. 4, No. 4 (Winter, 1997), Published by: Taylor & Francis, Ltd.
181 Nae-Young Lee. The Political Economy of Bank Restructuring in Mexico. Kyun Hee University, South Korea, October 2001.
182 Alicia Girón González y Noemi Levy Orlik: México: ¡Los bancos que perdimos! De la desregulación a la extranjerización del sistema financiero. IIEC, Instituto de Investigaciones Económicas. Facultad de Economía, UNAM, Universidad Nacional Autónoma de México, México. 2005.

In stark contrast, Korea's governments during its development era exerted tight control by controlling banks and inflows and did not suffer any crisis until 1997, due to their crony-tainted leniency with the chaebols. Korea's governments regulated financial capital flows through an ubiquitous regulating presence. Between 1961 to 1980, the State owned most of the major banks, including the Bank of Korea, five nation-wide commercial banks, six special banks, and the two development banks (Korea Development Bank and Export-Import Bank). The State micro-managed the sector, regulating every aspect, from salary reviews to setting ceilings for individual banks and controlling their operating funds and interest rates. The State also controlled the financial system and monetary policy, appointing all senior bank officials, and clearing all major credit allocations. This enabled Korea to avoid any of the constant financial/economic crisis of Iberian America, until it also fell into crony-induced relaxed regulation of the sector.[183]

Another clear contrast is the traditionally much higher level of savings not just in Korea but in all of East Asia than in Iberian America. Before the 1997 Asian Crises, East Asia's savings averaged 30% of national income versus 20% for Iberian America. While low-income China saved 40% of national income, middle-income Mexico did by only 15%. The much higher savings in East Asia, and certainly in Korea, than in Iberian America, allowed it to finance its development with domestic savings. Avoiding in this way, many of the indebtedness problems that Iberian America has faced.[184] But, why are savings so much lower in Iberian America? One reason with some merit argues that *the high accumulation of human capital and export orientation has produced virtuous circles of growth, employment and equity in East Asia. In contrast, the limited education and import substitution strategy in Latin America has generated vicious circles in which the lack of economic opportunities has exacerbated poverty, reducing incentives for savings and education, and limiting aggregate economic growth.*[185] Of course, before economic opportunities and poverty, stands the lack of commitment of Iberian American governments to provide education with quality. This renders a lack of opportunity for millions of citizens. In fact, attitudes in Iberian America are negative. The low commitment of its citizens to national development and the low trust on its governments still produces a continuous outflow of savings to the metropolises of the system.

➡ Racial cohesiveness

A debatable but rather evident difference is the racial cohesiveness of Korea vis-á-vis the racial diversity of Iberian America. Some analysts (Jae-Young Ko, Wan-bae Kim[186]) view such cohesiveness as a factor that has strengthened Korea's nationalism, which, compounded with a Confucian culture, has facilitated a sense of nation building and the willingness of Korea's ruling class to include, rather than exclude, more sectors of the population in the ranks of people with access to a dignified quality of life. Other authors (Goldner, You-il Lee, Wan-soon Kim et al) regard such cohesiveness as a myth or a negative factor. In any case, what is indeed a fact, is the prevalent ethnically-charged sheer social class system of Iberian America. In countries with a large pre-hispanic component or with large populations of African descent in their population, such as Mexico, all of Central America, Brazil, the Caribbean and Andean countries, racism is rampant, albeit covered by a thick veil of hypocrisy. Customarily, the clearer the skin the more opportunities to enjoy a dignified quality of life. Some refer to the social context as *pigmentcracy.* In Iberian America, indigenous communities suffer extreme discrimination in access to human development and Welfare State Systems. A case in point, in Mexico, many rural communities have schools that do not offer all the six years of elementary schooling. In contrast, it can be asserted that the fact that Korea does have an ethnically and linguistically homogenous population, has contributed meaningfully to avoid racially-charged discrimination and to spur far more social mobility.

To complement this section, table 2.3 provides a schematic view of the difference between Korea and Iberian America in key development variables applied.

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183 You-il Lee, South Korea's Meandering Path to Globalisation in the late Twentieth Century, Asian Studies Review, September 2010, vol. 34
184 Kevin Watkins, Economic Growth with Equity, lessons from East Asia, Oxfam Publications, 1998.
185 Nancy Birdsall and Juan Luis Londoño: Asset inequality does matter: Lessons form Latin America, OCE Working paper, Inter American Development Bank, March 1997
186 Migration of foreign workers into South Korea: From Periphery to Semi-Periphery inthe Global Labor Market, Asian Survey, Vol. 44, No. 2 (March/April 2004), University of California Press.

Table 2.3: Schematic comparison of public policy, business and cultural variables influencing economic and human development between Korea and Iberian America

Variable	Korea	Iberian America
Core Development Strategy	Nation building, inward looking strategy coupled with growth with equity by investing in social/productive assets.	Adaptation of centre-periphery neocolonial relationship to prevailing economic paradigm – demand or supply-side– by maximising comparative advantages centred on cheap labour at modern-slave-work costs.
Role of the State	Dirigiste State culture with heavy emphasis on ensuring that private sector complied with development plans. Emphasis on making Korea an independent and competitive economic power centred on the emergence of Korea-Inc in the global arena.	Dirigiste State only during Keynesian era. Subsequent adaptation to neoliberalism and full adoption of mantra: economic opening, privatisation and reduction of the State to lowest common denominator. Recent retrenchment towards protectionist policies, particularly in energy and financial sectors and building of regional economic/ political block in most of South America. Complete subordination to US interests in Mexico, Central America, D. Republic, Colombia, Peru and Chile.
Investment in social/productive goods	HIgh priority to providing high coverage and high quality education as the basis of growth with equity, providing access to productive assets and achievement of full employment. Gradual building and expansion of Welfare System to include all active workers	Low priority, poor coverage and low quality education. Inconsistent development of Welfare System and partial privatisation of education, healthcare, pensions, emulating US model.
Industrialisation strategy	Anchored on development of chaebols, first through import substitution and labour intensive production to then transition to skilled-intensive and home-grown know how development. Strong support of development of domestic supply chains.	Anchored on development of domestic conglomerates, first through capital intensive import substitution and strong allurement of foreign direct investment using cheap labour and availability of natural resources. No effort to transition to skilled intensive and high value added manufacturing. Poor effort on development of domestic supply chains.
Foreign direct investment	Deterrent policies to keep FDI at low levels, usually regarded as villains or necessary evils. Strong preference for use of loans to finance development plans.	High priority to attract foreign corporations, usually regarded as necessary evils or partners. Extensive use of in-bond plants in Mexico, Central America and Caribbean, completely detached from domestic supply chains.
Management culture on FDI	Nationalistic, not ceding management control in joint ventures.	Much less nationalistic and prone to cede management control of joint ventures. Strong colonial mentality.
Asymmetric terms-of-trade conditions	In favour of Korean exports during first decades of development	No preferential treatment
Economic liberalisation	Protectionist, selectively opening only those sectors that achieved global competitive positions. Refused to sign trade agreements until end of 2000s	Protectionist for decades until emergence of neoliberalism in the 1980s. Enthusiastic adherence to Washington Consensus mantra to protect traditional oligarchic privileges of centre-periphery relationship. Almost indiscriminate opening of economic sectors and signing of regional and bilateral trade agreements. Unrelenting push to privatise strategic energy sector in Mexico. Recent retrenchment towards protectionist policies, particularly in energy, mining and financial sectors and building of regional economic/political block in most of South America.
Research and development	Strong emphasis on development of home-grown know how. Extensive use of copycat/reverse engineering and very high investment in R&D to reduce technological dependency at maximum and develop high-value added technological sectors.	High disregard for development of domestic know how with the relative exception of Brazil. Short-term mentality prone to opting for use of licensing, giving up to transnationals the benefit of much higher value-added economies.

Variable	Korea	Iberian America
Monetary policy	Close control of financial sector and of monetary policy. Public polices designed to produce high levels of savings. Moral hazard with chaebols had a direct effect on 1997 crisis.	Lax control of financial sector. Low savings and high capital flight. High moral hazard entrenched as business as usual norm. High levels of corruption rendered extensive white collar embezzlements, socialising costs while privatising gains.
Business culture	Crony capitalism between the State and chaebols is endemic. Nationalistic, not ceding management control in joint ventures. Relatively supportive of long-term development visions due to permanent effort of State to discipline private sector.	Crony capitalism dominating business culture, particularly in large conglomerates. Anti-nationalistic. Predatory, exploitative and immersed in practice of modern-slave-work, excessive short-term mentality, monopolistic and with high levels of corruption.
Labour rights	Extensive violation of labour rights. Less control of trade unions due to unrelentingly combative worker activism, which enabled workers to gain major increase in share of income and to consolidate a higher plateau of wage levels. Persistent polarisation between regular and non-regular workers is shrinking negatively due to increasing casualisation of labour conditions across the board after full immersion of Korea in neoliberal global system.	Violation of core labour rights is endemic, extensive practice of modern slave work. Most unions are controlled in connivance with the State. Relatively low worker activism in defence of rights. High unemployment producing high levels of workers in informal economy. Systematic reduction of labour compensations particularly in Mexico. Brazil and Argentina have implemented policies to reverse this trend and labour's share of income is improving.
Cultural values	Strong national identity and pride; culture of sharing, solidarity and care for the welfare of the community, possibly influenced by Confucian values. Ethnically and linguistically cohesive.	Sheer individualism, low solidarity, high perception of class struggle. Ethnical and linguistic diversity. High levels of racism and "classism". Colonialism mentality precludes building of strong national identity.

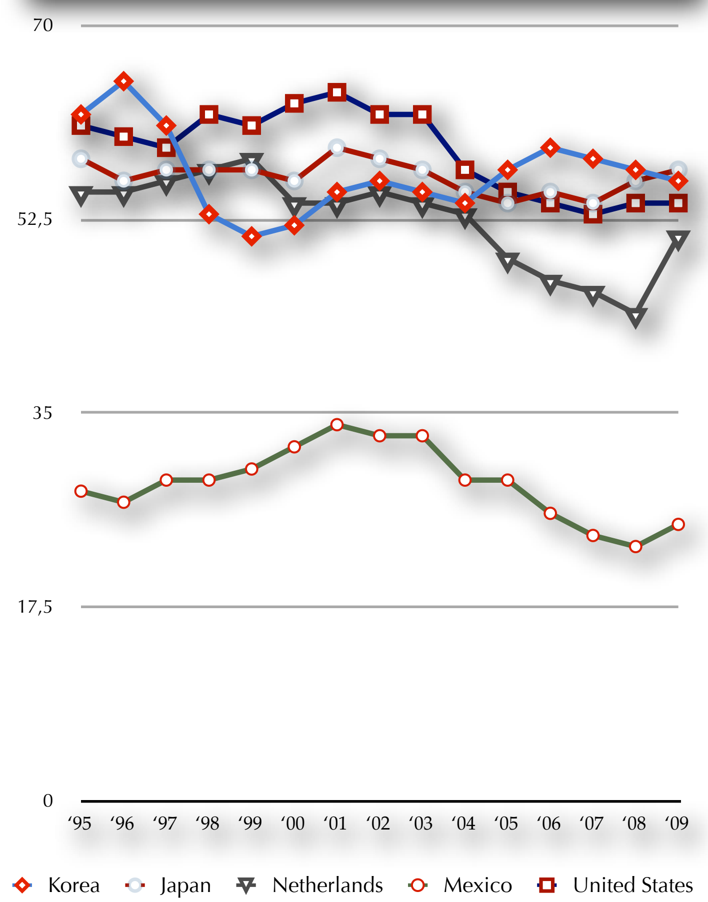
As a corollary to this section, all of this contradicts the traditional neoliberal argument that Iberian America failed because of state intervention whereas East Asia followed neoliberal dogma. This is not only untruthful, but the current crisis has clearly shown the need for a very visible hand from the State to harness the sheer greediness of capitalism and to put people and planet over the market. The key to Korea's success was, in a nutshell, a strong and competitive nationalism/protectionism compounded with the powerful force of a militant working class to capture its fair share of income. On one hand, Korea invested in the productive assets, making a commitment to achieve full employment and following a path towards industrialisation anchored on the sustained increase of added value; which triggered a rise of real wages and with neoliberalism and its "free trade" conspicuously scarce, until this century. On the other hand, Korea has a very combative working class that fought hard to achieve a dignified quality of life during both the authoritarian and the so called "democracy" eras. Furthermore, although Korea is now fully engulfed in neoliberalism, the social, technological and business structures of its economic edifice, that were built during its development strategy, certainly enable it to cope with the powerful forces of the neoliberal assault far more better than Iberian America, where Mexico, the second largest economy, stands out for having already completely surrendered to the predatory dictates of global capitalism. An OECD Employment outlook for Mexico for 2011 assesses informal employment at almost two-thirds of total employment. The report informs that *The incidence of informal employment has increased substantially from an already high level and more than during previous downturns. This reflected a sharp decline in the share of the working-age population in formal employment during the initial phase of the downturn due to the decline in export demand and a sharp increase in the share of the working-age population in informal employment (up to 63% of total employment) during the last phase of the downturn and the initial phase of the recovery. This rise in informal employment reflects the tendency of formal-sector job losers to move into informal work and possibly the engagement of previously inactive household members in informal work to compensate for the loss of household income.*[187] The future of Korea under neoliberalism remains to be seen but it will certainly be the result of a forceful clash of opposing forces. Indeed, although Korea is in a much better position than most countries in the world, the current increase of inequality is not encountering a docile work force and the chaebols will have a hard time meeting their goals to boost shareholder value through labour casualisation. The only difference is that Koran workers are not alone, for this time the salaried are mobilising across the global system to put an end to the neoliberal ethos and its predatory practices.

187 Employment Outlook 2011 – How does Mexico compare? OECD, 2011.

PART III

TLWNSI's living-wage concept is anchored on the simple idea of equal pay for equal work. An idea which is part of international law in Article 23 of the Universal Declaration of Human Rights. The logic is quite simple. If the economies of all countries in the capitalist system have been undemocratically globalised –for the citizenries were never asked if they wanted their economies to be globalised, then wages must also be globalised– so that workers doing the same work –particularly for the same companies or indirectly through their supply chains– earn the same real wages as equivalent workers in the home countries. Yet, deliberately, whilst prices, markets and access to labour pools have been globalised, wages have not. On the contrary, not only have they not been globalised, but their real value has been forcefully eroded both in the periphery as well as in the economies at the core of the system. Thus, while wages in developed economies have been gradually eroded, they are being driven down in the periphery in pursuit of the lowest common denominator. Such benchmark is currently the wages paid in China and India, which are clearly labour-bondage wages, despite experiencing some growth in real terms in the last few years.[188] What has taken place is that the so-called invisible hand of the market, which argues to make the most efficient allocation of resources, has operated in a rather visible way always in favour of supply, namely, the, literally, life-sucking Darwinian institutional investors of globalised financial markets: Goldman Sachs, Morgan Stanley et al. By just opening any paper, we can witness daily how the so-called rating agencies of financial markets demand the complete dismantling of the Welfare State and the full flexibilisation of labour markets in Europe, as they have been doing for decades in the periphery, so that their companies can feel free to hire and fire at will, with no labour rights or any glimpse of corporate social responsibility whatsoever. Such pressure from international financial markets has been exerted unrelentingly on Korea since the 1997 crisis. This has made a dent in the real wages of Korean workers.

Chart 3.1: Percent of labour's share of income (unit labor costs)



Indeed, chart 3.1 shows the OECD'S labour share of income for all economic sectors in terms of unit labour costs for Korea. It is clear that Korea's labour share experiences a steep decline beginning in 1997. A comparison of Korea's labour share of income between its highest point in 1996 and its lowest point in 1999, records a drop of 21,3% in just three years, from a 65,3% share to a 51,4% share, respectively.[189] However, as previously noted, Korea's share of income was able to consolidate its plateau at a level that is commensurate with that of developed economies and is dramatically higher than the share of countries such as Mexico, as illustrated in this chart. Labour compensation costs in the manufacturing sector also experienced a drop, following a general trend that, with few exceptions, has clearly cut the labour share of income. Nonetheless, as later shown, Korea has been able to sustain its ratio with US equivalent wages in purchasing power parity terms.

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188 Álvaro de Regil: A comparative approximation into China's living-wage gap, The Jus Semper Global Alliance, A TLWNSI Issue Brief, June 2010; and: India's living-wage gap: another modern slave work ethos, The Jus Semper Global Alliance, A TLWNSI Issue Brief, August 2010.

189 OECD Stat Extracts: Unit Labour Costs - Annual Indicators: : Labour Income Share Ratios Data extracted on 23 Sep 2013.

❖ *A Living-Wage perspective*

Assessing the quality of Korea's manufacturing wages from TLWNSI's perspective (living-wage gap) for both production-line workers and all employees (production-line workers and all other manufacturing employees combined) exhibits the dramatic improvement of real wages in the last decades. The analysis is performed following TLWNSI's methodology to determine what would constitute a living wage for people employed in the manufacturing sector in Korea, benchmarked against equivalent US wages. First, TLWNSI's living-wage concept is explained in detail. Then, we will review Korea's 1975-2009 nominal and real wages for production workers and 1996-2012 nominal and real wages for all employed in the manufacturing sector –in purchasing power parity (PPP) terms– to assess the dimension of the gap between the actual and equalised nominal wage (living wage). Subsequently, a projection is performed to determine the annual rate of increase and the number of years required, respectively, to fully close the living-wage gap of manufacturing wages with equivalent US wages.

➡ TLWNSI's living-wage concept

The gaps between real wages and living wages in most developing countries are so wide that, realistically, it would be impossible, for many reasons, to close the gaps in a few years. As a general rule, TLWNSI's conceptual framework increases real wages by applying the sum of the inflationary index of the immediately preceding year plus several additional percentage points to nominal wages. The exact amount of additional percentage points depends on the size of the gap and the term that each government imposes on itself to fulfil the goal of closing the wage gap. That would be a political economy decision. TLWNSI's goal is the equalisation of wages –in PPP terms– of developing countries with their US counterparts in the term of not more than thirty years or a generation. TLWNSI's research indicates that, to fulfil the goal –in the maximum term of thirty years– most economies need to increase wages annually an average of 5% (+/- 2%) above inflation. Thus, if, for instance, inflation averages 5%, wages would increase nominally an average of 10% to reach its goal. Evidently, this is no longer the case in Korea. There is a gap with equivalent US wages that has oscillated between a 70 and a 80 equalisation index for more than a decade. This is consistent with the gap range found among the developed economies that still have a gap with the US. Thus, the matter in question here is to show the dramatic improvement of Korea's manufacturing wages since 1975 and the fact that Korea is only within a few years of closing the gap, if the political will of the various stakeholders –workers, employers and State– combine.

TLWNSI's conceptual framework is firmly anchored on the context of true democracy. That is, a truly democratic ethos has as its only purpose the welfare of people and planet. In this ethos the market is firmly harnessed to work as a vehicle to generate material welfare instead of being an end in itself, as is currently the case. To be sure, TLWNSI's concept parts from the assertion that we do not live in democratic societies but rather in *marketocratic* societies where the market has overtaken the halls of governments and dictates the public policy to fulfil its very private interest. In essence, the public matter has been privatised and politicians discuss it in private with the owners of the market, the world's institutional investors. The policies that the EU is currently taking to supposedly protect the euro are the most recent examples of how financial markets dictate public policy decision making to impose the neoliberal mantra. They include, prominently, the downgrading of labour standards and the reduction of the Welfare State to its minimum expression. Financial markets –through their rating agencies and major stock brokerage houses– simply exert the necessary threats to impose their will on economic policy; a will in which their very private interest –the maximisation of shareholder value– is inherently embedded.[190] TLWNSI's concept runs in the opposite direction, where governments fulfil the public mandate. In a succinct manner, TLWNSI's concept is comprised of the following elements:[191]

1. The argument

- In a true democracy, the purpose of all governments (the public mandate) is to procure the welfare of every rank of society, and with special emphasis on the dispossessed, with the only end of all social ranks having access to a dignified life in an ethos where the end of democratic societies is the social good and not the market. The market is just one vehicle to generate material wellbeing.

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190 The Economist: 1) Fear spreads – A big rescue package for Greece has not protected other countries such as Portugal, 6th May 2010; 2) Labour reform in Spain isn't working, 17th, June 2010; 3) Reforming France State of denial, 17th June 2010; 4) Credit-rating agencies – Judges with tenure –Making financial markets less reliant on ratings will not be straightforward, 13th August 2011.

191 For a detailed presentation see: The Jus Semper Global Alliance: The Living Wages North and South Initiative (TLWNSI). A strategic program to commit multinational and other business enterprises (Working draft 2011): http://www.jussemper.org/TLWNSI/Resources/TLWNSI_WDRAFT_2011.pdf

- In this ethos, and with markets globalised, workers performing the same or an equivalent job for the same business entity, or for their supply chain, in the generation of products and services that this entity markets at global prices in the global market, must enjoy an equivalent remuneration.
- This equivalent remuneration is considered a living wage, which is a human right.
- The benchmark used is the wages paid by the entity in the North; namely the US.
- A living wage provides workers in the South with the same ability to fulfil their needs, in terms of food, housing, clothing, healthcare, education, transportation, savings and even leisure, as that enjoyed by equivalent workers in the North, which we define in PPP terms as determined by the World Bank and the OECD.
- The material quality of life in Jus Semper's TLWNSI is defined in terms of purchasing power, so that equal pay occurs when purchasing power is equal.
- Purchasing power is determined using PPPs.
- PPPs are the rates of currency conversion that eliminate the differences in price levels between countries.

2. Definition of a living wage

- A living wage is that which, using the same logic of ILO´s Convention 100, awards "equal pay for work of equal value" between North and South in PPP terms,
- The premise is that workers must earn equal pay for equal work in terms of material quality of life for obvious reasons of social justice, but also, and equally important, for reasons of long-term global economic, environmental and social sustainability.

3. Supporting criteria

The argument of an equivalent living wage is anchored on two criteria of international law:

- ✦ Article 23 of the UN Universal Declaration of Human Rights, on the following points:
  a. Everyone, without any discrimination, has the right to equal pay for equal work,
  b. Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.
- ✦ ILO´s Convention 100 of "equal pay (equal remuneration) for work of equal value", which is applied for gender equality, but applied in this case to North-South equality, using PPPs as the mechanism.

4. Other ethical criteria from a human rights perspective

- The proposal is to enable workers in the South to earn living wages at par with those of the North in terms of PPPs in the course of a generation (thirty years).
- Just as the ILO's Decent Work Agenda states, the decent work concept has led to an international consensus that productive employment and decent work are key elements to achieving poverty reduction.
- There cannot be a decent work ethos without a living wage as the standard for work remuneration.
- There will not be any real progress in the true sustainability of people and planet –reversing environmental degradation and significantly reducing poverty– if there is no sustained growth, in that period, in the South's quality of life, through the gradual closing of the North–South wage gap; attacking, in this way, one of the main causes of poverty, and pursuing concurrently sustainable development –rationally reducing consumption in the North and increasing it to dignified levels in the South– thus reducing our ecological footprint on the planet.
- This entails that equal pay for equal work in the North-South context –of a living-wage quality– will meet at a point in the long-term future where the human footprint on the environment will be substantially lower than it currently is.

5. Concept of living wage using PPPs

- The concept of a living wage using PPPs is straightforward. To determine real wages –in terms of purchasing power– of any country in question, its PPPs are applied to nominal wages. These are the real wages for each country.
- Purchasing power parities reflect the amount in dollars required in a given country to have the same purchasing power that $1 US has in the United States; e.g.: if the PPP index in one country is 69, then $0,69 are required in that country to buy the same that $1 buys in the US; thus, the cost of living is lower. If the PPP were to be higher than 100, say 120, then $1,20 is required to buy the same that $1 buys in the US; the cost of living is, thus, higher.
- To calculate a living wage, the real wage of a specific category of US workers is used as the benchmark, and the PPP of a country in question is then applied to the US wage.

- This provides the equivalent living wage that a worker in the country in question should be earning in order to be at par –in terms of purchasing power– to the material quality of life enjoyed by the equivalent US worker. This is the equalised wage in terms of purchasing power.
- In this way, the comparison with the actual real wage of the country in question exposes the gap –in real terms– between the current real wage of the worker of the country in question and the living wage he should be earning, to be equally compensated in terms of PPPs.
- In practice, since the PPPs vary annually –due to the dynamics of economic forces– the pace of the gradual equalisation of wages, through small real-wage increases, needs to be reviewed annually.
- The difference between real wages of a subsistence nature and of an equalised and dignified nature is the amount that originally belongs to workers but that employers perversely keep to increase profits and shareholder value.
- It must be pointed out that this rationale does not even take into consideration that the neoliberal paradigm of staunch support for supply-side economics has consistently depressed, for three decades, the purchasing power of real wages in the US –the benchmark country for wage equalisation. This has been attempted to be resolved by women joining the work force and, fictitiously, through over indebtedness, which eventually brought us down to the great implosion of capitalism in 2008. In this way, this equalisation analysis is made in the context of a course set forth during three decades of global depression of real wages in favour of international financial capitalism.

6. A real example in 2012 (table 3.1)

- As indicated in table 3.1, the total compensation costs of equivalent manufacturing employees in Korea amounted nominally to $20,72 an hour in 2012, which in real (PPP) terms amounts to $26,29, or 74% of what is necessary to be compensated at par with the total cost of equivalent US workers in the manufacturing sector –in accordance with TLWNSI's living-wage concept of equal pay for equal work of equal value.
- While the cost of living in Korea in 2012 –in PPP terms– was 79% of the US, the 74 equalisation index exposes a gap of 26%; for Korean employees needed to earn nominally $28,12 an hour (79% of US wages) to enjoy an equivalent wage in purchasing power to the $35,67 that US workers nominally earn.
- Comparatively, Korean real wages are within the range of the equalisation indices for all employed in manufacturing of those of developed economies, and have been in that position since the begging of the century. In 2012, they are higher than Japan's equalisation index, similar to those in the UK, Canada, Singapore and Spain, yet still clearly bellow those of Australia, France, Germany and Scandinavian countries such as Norway.
- Compared to Mexico, Korea's real wages are almost three times Mexican wages, a comparison all the more dramatic when considering that in 1975 they used to be the opposite.
- Korea's equalisation index with equivalent US wages is also clearly ahead of those in Argentina, Brazil, New Zealand as well as those of Eastern European countries such as the Czech Republic.
- As a reference, China and India hold the worst equalisation indices with US equivalent wages of all countries with available labour compensation costs in the manufacturing sector.
- For further detail see the appendix.

Table 3.1: Korea: Nominal wage (total compensation cost), real wage and living-wage equalisation for all employed in manufacturing in purchasing-power parity terms with the US in 2012 vis-á-vis other economies

2012	Nominal hourly wage (total compensation)	PPP 2012	PPP hourly Real wage	Equalised nominal hourly wage	Equalisation index (wage gap is the inverse)
United States	$35,67	100	$35,67	$35,67	100
			100%	100%	
South Korea	$20,72	79	26,29 $	28,12 $	74
	58%		74%	79%	
Mexico	$6,36	68	9,36 $	24,25 $	26
	18%		26%	68%	

Table 3.1: Korea: Nominal wage (total compensation cost), real wage and living-wage equalisation for all employed in manufacturing in purchasing-power parity terms with the US in 2012 vis-á-vis other economies

2012	Nominal hourly wage (total compensation)	PPP 2012	PPP hourly Real wage	Equalised nominal hourly wage	Equalisation index (wage gap is the inverse)
Canada	36,59	129	$28,42	45,93 $	80
	103%		80%	129%	
Brazil	$11,20	96	$11,69	34,19 $	33
	31%		33%	96%	
Argentina	$18,87	89	$21,09	31,92 $	59
	53%		59%	89%	
France	$39,81	115	$34,63	41,01 $	97
	112%		97%	115%	
Spain	$26,83	101	$26,66	35,90 $	75
	75%		75%	101%	
Germany	$45,79	107	$42,67	38,28 $	120
	128%		120%	107%	
United Kingdom	$31,23	114	$27,51	40,50 $	77
	88%		77%	114%	
Belgium	$52,19	115	$45,27	41,12 $	127
	146%		127%	115%	
Czech Republic	$11,95	79	$15,20	28,04 $	43
	34%		43%	79%	
Japan	$35,34	147	$23,96	52,61 $	67
	99%		67%	147%	
Singapore	$24,16	85	$28,58	30,15 $	80
	68%		80%	85%	
China (2009)	$1,74	61	$2,86	$20,81	8
	5%		8%	61%	
India (2010)	$1,46	46	$3,15	$16,16	9
	4%		9%	46%	
Australia	$47,68	160	$29,88	56,92 $	84
	134%		84%	160%	
New Zealand	$24,77	130	$19,11	46,23 $	54
	69%		54%	130%	

7. TLWNSI and long-term sustainability

It should be pointed out that envisioning the appreciation of the real wages of any society that endures misery wages of modern slave work conditions must be considered with prudence. TLWNSI's approach to providing a living-wage ethos to exploited workers is made on the context of long-term sustainability. Closing the living-wage gap of any country –with no other consideration than dispensing the same purchasing power that is currently enjoyed by equivalent workers in so-called developed economies– is, unequivocally, unsustainable, for the simple reason that many critical resources are running scarce and the human footprint on the planet may have already crossed a threshold of no return to previous conditions. Consumption levels in the "developed" world are leaving an unsustainable environmental footprint, as a great diversity of qualified voices have ineffectively alerted us. Such is the case that wage equalisation for the equalisation of standards of living between developed and developing economies –in the context of the market– cannot be a long-term objective. The final goal proposed by TLWNSI must be a sustainable growth that reduces consumption and the human footprint in a radical manner.

This requires a new definition of development and progress clearly afar from capitalism (and GDPism). The culture of exacerbated consumerism –to boost shareholder value– must be replaced by a culture that has, as its sole purpose, the procurement of dignified levels of social wellbeing albeit permanently sustainable. To this endeavour, the quality of life of developing countries must be improved sensibly –whilst inequality is eliminated– and consumption levels in developed countries must decrease substantially. Radically decreased northern consumption levels must still deliver a dignified quality of life ethos with a hallmark for achieving long-term sustainability. Highly efficient consumption of both renewable and non-renewable resources must be its most prominent attribute. Increasingly, arguments are raised in favour of stationary paradigms of no economic growth in themselves (Haribey, Latouche, Custers, Stoll, et al). Yet, we are still far from agreeing on a common idea of development for the future. For this to become possible, the cooperation of all countries, particularly the metropolises of the system, is needed. Unfortunately, the vast majority of governments are under the aegis of the owners of savage capitalism: the institutional investors –financial market speculators– and their corporations. Thus, so far, governments have consistently disregarded any change of paradigm, as we are witnessing in a myriad of instances in every region of the world.

Consequently, as long as we are unable to be in agreement, the civil societies of developing countries –emerging and all others– continue to be compelled to provide their workers with living wages within the current market context, through the concept of gradual wage equalisation, as proposed by TLWNSI. Such demand is clearly unsustainable. Yet, as long as the owners of economic power continue to refuse to move away from the current unsustainable paradigm, workers have every right to demand TLWNSI's equal pay for equal work of equal value –in PPP terms– until we –humankind– consolidate our own demise, which will surely happen if employers and governments continue to refuse to improve real wages in the periphery countries whilst reducing consumption in the metropolises.

TLWNSI's living-wage concept must take as its benchmark the wage remunerations of the developed world for all the reasons previously presented. In the last decades some economies –predominantly South Korea and Spain– have made great strides in transforming their wage remunerations into a quality approaching that of a living-wage kind. To be sure, Brazil's constitutional plan to increase the minimum wage annually –by following the simple formula of increasing it at the rate of the sum of inflation plus GDP growth– is the first case that serves as hard evidence –hardly improvable– that TLWNSI's conceptual framework is clearly realistic when there is the political will of the State. Indeed, the possibility of the other BRIC countries, all the other so-called emerging markets, and of the entire developing world, of gradually closing their living-wage gaps depends prominently on the political will of its rulers. So far almost all have clearly signalled their staunch loyalty to the centre-periphery model of labour exploitation. But, since 2003, Argentina has consistently shown the political will to make its wages –along with Brazil– another exception to the rule by pursuing a specific policy to make them of a living-wage kind. By the same token, Singapore and Taiwan have also improved significantly the real wages of their workers. Only time will tell if such policies become the standard in these countries.

Nonetheless, I must insist that, in the event that a country embarks on a long-term programme for real wage appreciation, equalising consumption levels with the developed world –at its present level of consumption– is not a sustainable and responsible approach, whatsoever. True sustainability requires a drastic change of paradigm so that consumption levels both North and South meet at a point where our footprint provides a dignified quality of life, yet with a much lower (efficient) level of consumption that guarantees long-term sustainability globally and locally.

➡ Korea's living-wage gap performance for production workers and all employees

As with all our assessments of this nature, to position Korea's real wages –vis-à-vis its counterparts in the United States– comparative data that the Bureau of Labour Statistics (BLS) of the US Department of Labour reports for the wages of production workers and all employed in manufacturing is used, analysing the course followed by both Korean total compensation costs as well as direct pay during the 1975-2009 (production workers) and 1996-2012 (all employed in manufacturing) periods.[192] Let it be clear that access to intangible assets (education, health, training...) is instrumental in the eradication of poverty and the development of a dignified quality of life. However, the payment of living wages is a fundamental factor overriding all others. If a society provides access to education and a health system but wages are below the living wage standard, people will not be able to use their natural individual abilities and specialised skills to provide for themselves and their families a standard of living worthy of human dignity. Moreover, the potential for economic growth would be greatly hampered. Using the same manufacturing compensation data, a comparison with Argentina, Brazil and Mexico is provided with charts to further illustrate the clearly different performance for labour compensations between Korea and Iberian America.

Table 3.2: Living-wage gaps for total hourly compensation costs of Korean production workers in PPP terms 1975-2009

		1975	1980	1985	1990	1995	2000	2005	2007	2009
Benchmark	1. US Hourly total compensation cost	6,19	9,67	12,76	14,88	17,24	19,73	23,60	25,13	26,19
Korea	GNI PPPs in country currency (Won)	238,90	469,83	475,86	534,16	668,81	655,04	760,44	750,77	929,23
	Exchange rate (won x 1 dollar)	484,0	607,4	870,0	707,8	771,3	1131,0	1024,1	929,3	1276,9
	GNI PPPs in US Dollars	0,49	0,77	0,55	0,75	0,87	0,58	0,74	0,81	0,73
	2. Equalised PPP nominal compensation US $	**3,06**	**7,48**	**6,98**	**11,23**	**14,95**	**11,43**	**17,52**	**20,30**	**19,06**
	3. Actual Real compensation US $	**0,67**	**1,27**	**2,34**	**5,02**	**8,70**	**14,74**	**17,78**	**20,98**	**17,03**
	4. Actual Nominal compensation US $	**0,33**	**0,98**	**1,28**	**3,79**	**7,54**	**8,54**	**13,20**	**16,95**	**12,39**
	Compensation Deficit in US $ (2 minus 4)	2,73	6,50	5,70	7,44	7,41	2,89	4,32	3,35	6,67
	Wage Equalisation index (4÷2 or 3÷1)	0,11	0,13	0,18	0,34	0,50	0,75	0,75	0,83	0,65

Table 3.3: Living-wage gaps for hourly direct pay of production workers in PPP terms 1975-2009

		1975	1980	1985	1990	1995	2000	2005	2007	2009
Benchmark	1. US Hourly direct pay	5,18	7,87	10,28	11,85	13,61	15,75	18,39	19,17	20,15
Korea	GNI PPPs in country currency (Won)	238,90	469,83	475,86	534,16	668,81	655,04	760,44	750,77	929,23
	Exchange rate (won x 1 dollar)	484,0	607,4	870,0	707,8	771,3	1131,0	1024,1	929,3	1276,9
	GNI PPPs in US Dollars	0,49	0,77	0,55	0,75	0,87	0,58	0,74	0,81	0,73
	2. Equalised PPP nominal compensation US $	**2,56**	**6,09**	**5,62**	**8,94**	**11,80**	**9,12**	**13,66**	**15,49**	**14,66**
	3. Actual Real compensation US $	**0,61**	**1,14**	**2,10**	**4,40**	**7,30**	**10,74**	**14,69**	**17,25**	**14,02**
	4. Actual Nominal compensation US $	**0,30**	**0,88**	**1,15**	**3,32**	**6,33**	**6,22**	**10,91**	**13,94**	**10,20**
	Compensation Deficit in US $ (2 minus 4)	2,26	5,21	4,47	5,62	5,47	2,90	2,75	1,55	4,46
	Wage Equalisation index (4÷2 or 3÷1)	0,12	0,14	0,20	0,37	0,54	0,68	0,80	0,90	0,70
	Direct pay as % of total compensation cost	90,9	89,8	89,8	87,6	84,0	72,8	82,7	82,2	82,3

192 The hourly manufacturing rate or nominal hourly wage is the "hourly compensation cost" as defined by the US Department of Labour, Bureau of Labour Statistics: This includes (1) hourly direct pay and (2) employer social insurance expenditures and other labour taxes. For a detailed description of these concepts see definitions in the appendix.

In the thirty four-year period assessed in tables 3.2 and 3.3, for production-line workers only, we can observe two conspicuous features concerning real and living wages described in previous pages. The first feature is a consistent trend in the sustained improvement in the wage equalisation index. Korea's equalisation was a dismal 11 index in 1975 –or 11% of what is required to be equally compensated. Yet it grew an average of more than 14% annually to close at a 65 index in 2009 for total hourly compensation costs. This despite a drastic drop from an 83 index in 2007, due to the global economic crisis. The trend is quite similar yet even more impressive for direct pay equalisation (table 3.3). Its equalisation scores its best index in 2007 as well (90) to then drop to a 70 index in 2009 due to the deep recession of the global system. The second feature – inherent in the higher equalisation levels for direct pay than for total compensation costs– is the fact that Korean workers take home a substantially higher portion of total compensation costs than equivalent US workers. Hence the higher indices. This is consistent for the entire period except for the last years at the end of the century due to the 1997 Asian crisis, as observed in the equalisation index for 2000. The US Department of Labour stopped publishing data for production workers only after 2009.

As for the real value of wages for all employed in manufacturing (including production workers), we find the same living-wage equalisation trend observed for production workers only, as shown in tables 3.4 and 3.5, albeit less pronounced. That is, there is a sustained growth of the equalisation index, but the drop due to the global crises is very mild for total compensation costs and non existent for direct pay. After reaching its peak in 2008, there is only a one point loss in equalisation for total costs in 2010 to then resume its growth as observed in 2012. As for direct pay there is no loss, but there is no resumption of equalisation growth yet to close the living wage gap.

Table 3.4: Living-wage gaps for total hourly compensation costs of all manufacturing employees in PPP terms 1996-2012

		1996	1998	2000	2002	2004	2006	2008	2010	2012
Benchmark	**1. US Hourly total compensation cost**	**22,47**	**23,49**	**24,96**	**27,36**	**29,31**	**30,48**	**32,78**	**34,81**	**35,67**
Korea	PPP conversion factor, GDP (in country currency)	731,42	773,44	746,17	769,32	795,94	774,43	783,38	824,39	887,49
	Exchange rate	805,0	1400,4	1130,9	1250,3	1145,2	954,3	1098,7	1155,7	1125,9
	PPP conversion factor, GDP (in US dollars)	0,91	0,55	0,66	0,62	0,70	0,81	0,71	0,71	0,79
	2. Equalised PPP nominal compensation US $	**20,42**	**12,97**	**16,47**	**16,83**	**20,37**	**24,73**	**23,37**	**24,83**	**28,12**
	3. Actual Real compensation US $	**10,50**	**11,99**	**14,58**	**16,66**	**18,17**	**21,40**	**23,63**	**24,86**	**26,29**
	4. Actual Nominal compensation US $	**9,54**	**6,62**	**9,62**	**10,25**	**12,63**	**17,37**	**16,85**	**17,73**	**20,72**
	Compensation Deficit in US $ (2 minus 4)	**10,88**	**6,35**	**6,85**	**6,58**	**7,74**	**7,36**	**6,52**	**7,10**	**7,40**
	Wage Equalisation index (4÷2 or 3÷1)	**0,47**	**0,51**	**0,58**	**0,61**	**0,62**	**0,70**	**0,72**	**0,71**	**0,74**

Table 3.5: Living-wage gaps for hourly direct pay of all manufacturing employees in PPP terms 1996-2012

		1996	1998	2000	2002	2004	2006	2008	2010	2012
Benchmark	**1. US Hourly total compensation cost**	**17,73**	**18,62**	**19,87**	**21,54**	**22,78**	**23,62**	**25,09**	**26,26**	**27,15**
Korea	PPP conversion factor, GDP (in country currency)	731,42	773,44	746,17	769,32	795,94	774,43	783,38	824,39	887,49
	Exchange rate	805,0	1400,4	1130,9	1250,3	1145,2	954,3	1098,7	1155,7	1125,9
	PPP conversion factor, GDP (in US dollars)	0,91	0,55	0,66	0,62	0,70	0,81	0,71	0,71	0,79
	2. Equalised PPP nominal compensation US $	**16,11**	**10,28**	**13,11**	**13,25**	**15,83**	**19,17**	**17,89**	**18,73**	**21,40**
	3. Actual Real compensation US $	**8,66**	**8,78**	**10,62**	**12,63**	**14,62**	**17,61**	**19,13**	**19,99**	**20,64**
	4. Actual Nominal compensation US $	**7,87**	**4,85**	**7,01**	**7,77**	**10,16**	**14,29**	**13,64**	**14,26**	**16,27**
	Compensation Deficit in US $ (2 minus 4)	**8,24**	**5,43**	**6,10**	**5,48**	**5,67**	**4,88**	**4,25**	**4,47**	**5,13**
	Wage Equalisation index (4÷2 or 3÷1)	**0,49**	**0,47**	**0,53**	**0,59**	**0,64**	**0,75**	**0,76**	**0,76**	**0,76**
	Direct pay as % of total compensation cost	**82,5**	**73,3**	**72,9**	**75,8**	**80,4**	**82,3**	**80,9**	**80,4**	**78,5**

The data published for all employed in manufacturing only goes as far back as 1996. However, we can observe that the hourly direct pay as a portion of total compensation costs is slightly lower, averaging 80% vi-à-vis 81% for production workers between 1995 and 2010, but not statistically significant. What is relevant, however, is that, given that hourly direct pay constitutes a key indicator to gauge real take home pay to workers, Korean manufacturing workers take a higher share of total compensation costs than most workers in countries with available data.[193] Chart 3.2 shows that Korean production workers take home a share of total costs several points greater than equivalent US workers, consistently, except during the Asian crisis years. The chart also exhibits that Korean workers take home a much higher share of total compensation costs than equivalent Brazilian and Mexican workers, which is still higher during the Asian crisis. The balance, after direct pay, accounts for employer social insurance expenditures and labour-related taxes. Chart 3.3 exhibits the case for all employed in manufacturing, with data available from 1996 forward. Take home pay average is lower in all countries –vis-à-vis production-line workers– because social expenditures and labour related taxes tend to be higher when including higher-income workers, such as white collar workers. Also, these expenditures increased their share for the US (21,1% to 23,9%) and Korea (17,5% to 21,5%) between 1996 and 2012. In contrast they dropped for Argentina, Brazil and Mexico. Argentina's take home income is the highest because social expenditures and labour taxes have the lowest share of total compensation costs, at 17,4% in 2012. In drastic contrast, although these costs have decreased in Brazil and Mexico, they are still much higher than for the other countries in the chart, at 32,8% and 30,2% respectively, thus lowering the share of take home income for all employed in manufacturing. Lastly, as in the case of production workers, take home pay dropped drastically for Korean workers during the Asian crisis to then recover and subsequently lose some ground since the start of the global crisis. Yet Korean workers continued to take home a higher share of compensation costs than US workers in 2012.

Chart 3.2. Hourly direct pay as a percent of total compensation costs - production workers

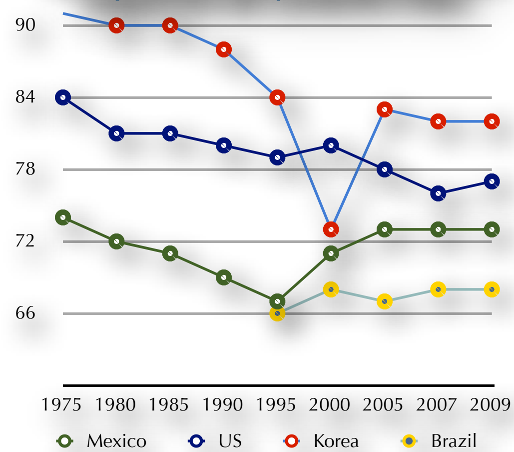
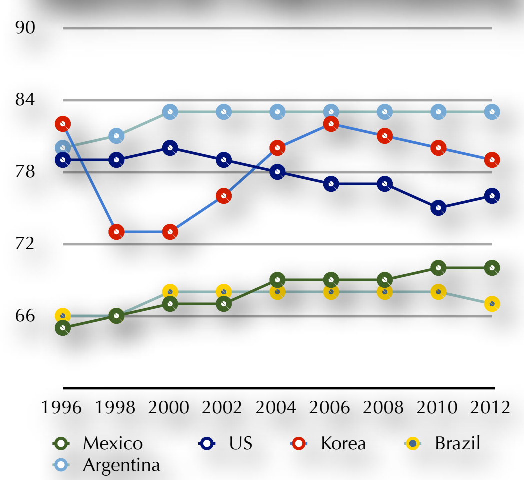
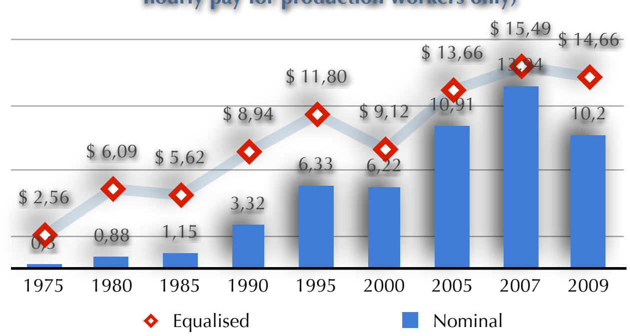


Chart 3.3. Hourly direct pay as a percent of total compensation costs - all employed in manufacturing



Charts 3.4 and 3.5 contrast the evolution of the performance of living wage equalisation with the US between Korea's and Mexico's production-line workers for direct hourly pay, respectively, in line with TLWNSI's concept.[194] Korea's living wage gap with US equivalent workers records a sustained reduction beginning after 1985. Equally relevant is the fact that the take home pay gap with the US does not increase whatsoever and instead continues to drop at a fast pace during the last five years of the century, which means that although nominal wages dropped, they did clearly less than equivalent US wages, despite the Asian crisis. In great contrast, Mexico's living wage gap grows from the mid eighties onward in a quite sustained manner. Given that equivalent US wages record a sustained growth from 1985 onward, Mexico's equalised wages also sustain a growth until 2009. Yet Mexico's nominal wages do not, due to a deliberate wage contention State policy that continues, until this day, eroding real wages given that they have dropped dramatically, for inflation has consistently depreciated their real value for almost three decades.

Chart 3.4: Korea's nominal and equalised nominal wage gap (direct hourly pay for production workers only)



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193 Direct pay includes pay for time worked (wages and salaries) and directly-paid benefits.

194 Wage data source: International comparisons of hourly compensation costs for production workers 1975-2009 and for all employed in manufacturing 1996-2012, International Comparisons Program; United States Department of Labour – Bureau of Labour Statistics.

The total hourly direct pay as a proportion of total compensation costs in Mexico for production-line workers ranks among the lowest (73%) in 2009, as shown in chart 3.2, vis-à-vis the rest of the countries included in the BLS database (78%). Thus, not only the pay is dramatically below Mexico's living wage (equalised) benchmark (chart 3.5) but labour-related taxes are among the most regressive.

Chart 3.5: Mexico's nominal and equalised nominal wage gap (direct hourly pay for production workers only)

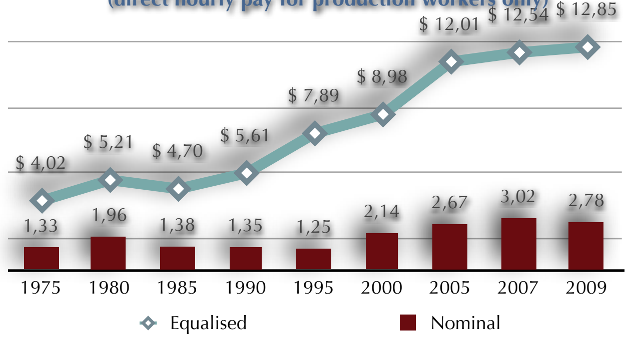


Chart 3.6 compares the living wage equalisation indices for Korea, Argentina, Brazil and Mexico for people employed in the manufacturing sector. Korea is way ahead of all, with a sustained equalisation trend gradually closing the living-wage gap with US equivalent workers. Mexico again exhibits the worst equalisation performance, with virtually a flat line that tends to get worse since the global crisis unfolded. Brazil's equalisation drops substantially after its end of century recession to then stabilise at a low index. Yet, a recovery ensues after 2010, very likely triggered by the wage recovery act that began to take effect precisely in 2010. Argentina is a different case vis-à-vis Brazil and Mexico. Although there is no data available for all manufacturing employees before 1996, we can observe how the country has not only recovered from one of the worst economic debacles in world history in 2001-2002, when all bank deposits were frozen, but Argentina is now approaching living-wage equalisation levels of developed economies. Between 1996 and 2002 Argentina's real (PPP) wage rates (total hourly compensation costs) were growing at a slightly faster rate than in the US. This is clearly reflected in the living-wage equalisation indices for the period. Then they completely collapsed during the corralito crisis.[195] Nonetheless, in great contrast with Mexico's economic policies, the government has made a central point of its recovery strategy to recover employment and wages to generate aggregate demand to dignify living conditions. Thus, for the recovery period of 2002-2012, Argentina's real (PPP) hourly wage rates (in US dollars) improved by an annual average of 13,4% (actual real compensation) and at 52,7% (in nominal terms), versus the much lower rate of 5,9% in the U.S, equivalent to more than twice the US rate. In this way, Argentina's "wage-equalisation index" with the US records a steady powerful growth since 2003, almost tripling the 32 index recorded at its nadir in 2002 with the 59 index of 2012. This also has enabled it to reduce the equalisation index gap with Korea's equivalent workers, as also observed in chart 3.6. Argentina's current challenge lies in being able to sustain its real wage growth both in absolute terms as well as in its equalisation with equivalent wages in the US. If it succeeds, real wages will become of a living-wage kind in less than a decade.

Chart 3.6. Korea, Argentina, Brazil and Mexico: Living-wage equalisation index with the US of total hourly compensation costs for all employed in manufacturing

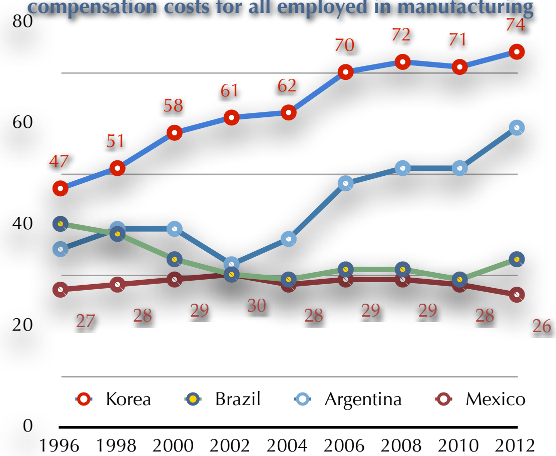
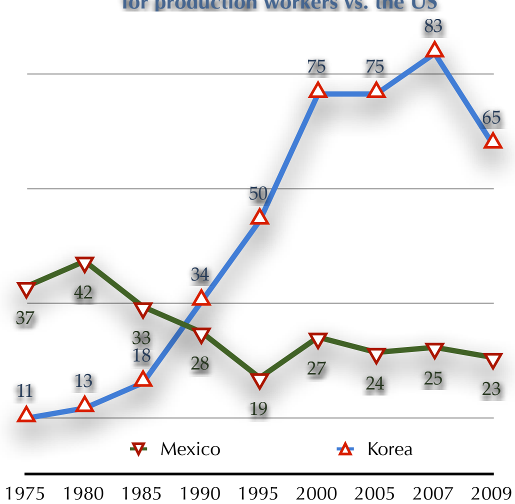


Chart 3.7. Mexico and Korea: Living-wage equalisation index of total hourly compensation costs for production workers vs. the US



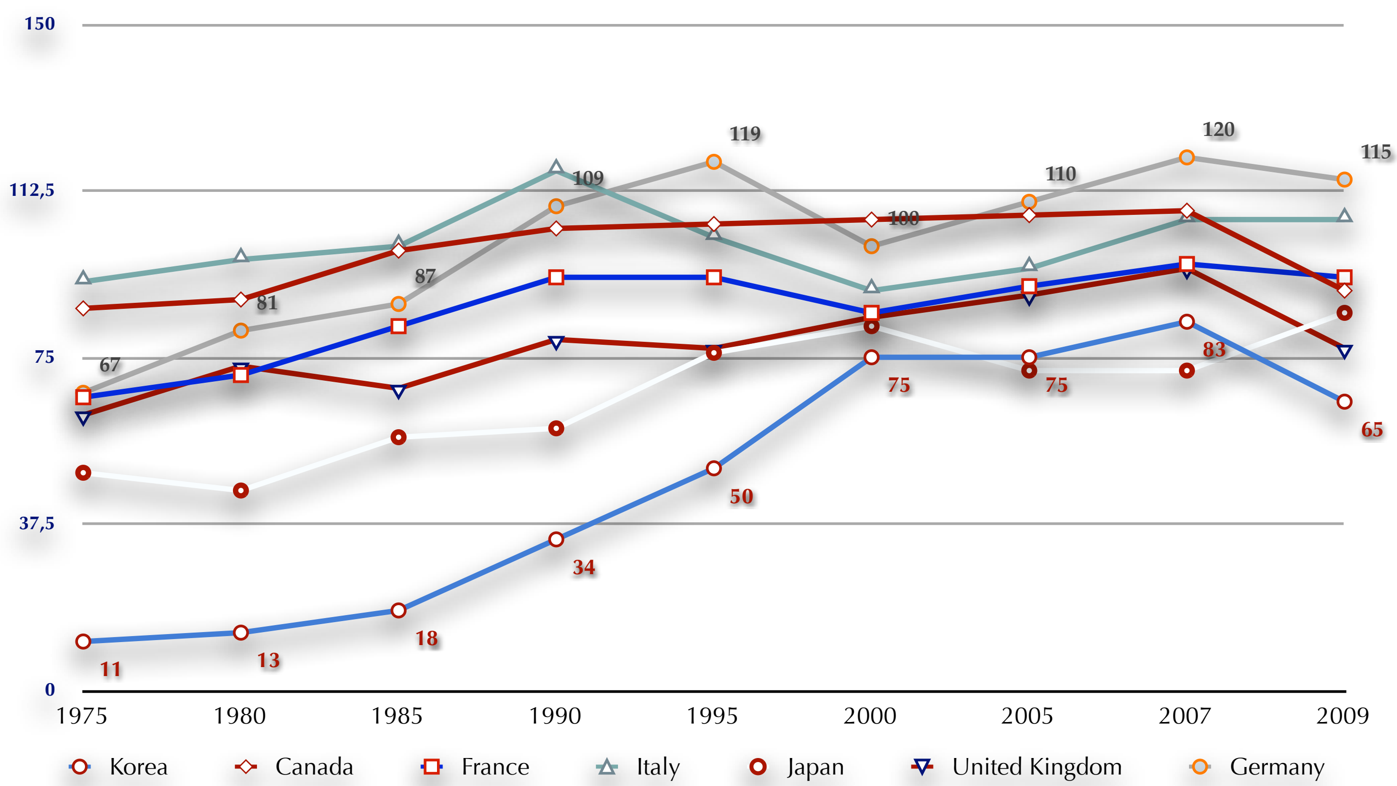
In contrast, Mexico's recovery from its 1995 debacle never materialised. It has levelled off at the lower twenties (chart 3.7) and it is only half its best index of 45 in 1981. This is the result of the government's deliberate policy of wage contention, which, in the best of cases, annually increases minimum wages at the same rate as inflation for the previous year. Thus, when we compare the wage rate equalisation performance of Korea, for production-line workers with that of Mexico, the contrast is the most dramatic of all. By making aggregate demand a

195 See: Álvaro J. de Regil: Argentina's manufacturing living-wage gap: still a ways to go but steadily closing in, The Jus Semper Global Alliance, A TLWNSI Issue Brief, September 2011.

pivotal point of its development strategy, Korea has reached the ranks of developed economies. Before the implosion of capitalism, Korea achieved its equalisation zenith in 2007, when it recorded an 83 index (chart 3.7) which at the time was nearly ten points above Japan's. Consequently, if we compare the equalisation records of Mexico and Korea since 1975, the results obtained by two distinctive and clearly opposing economic policies –mostly supply side for Mexico and predominantly demand side for Korea– could hardly be more dramatic. Indeed, the chart shows the dramatic difference in the living-wage equalisation performance of both countries. While Mexico's equalisation index with the US was 3,4 times greater than Korea's in 1975, by 2009 it had completely changed positions and now Korea's turned 2,6 times greater than Mexico's. In fact, in 2007, just before the global crisis unfolded, Korea's index was 3,3 times greater than Mexico's and clearly within the range of developed economies.[196]

Chart 3.8 exhibits how Korea has caught up with the so-called G7 countries and now its equalisation indices for living wage rates (total compensation costs) are clearly within the range of those recorded by these countries since 2000 for production-line workers.

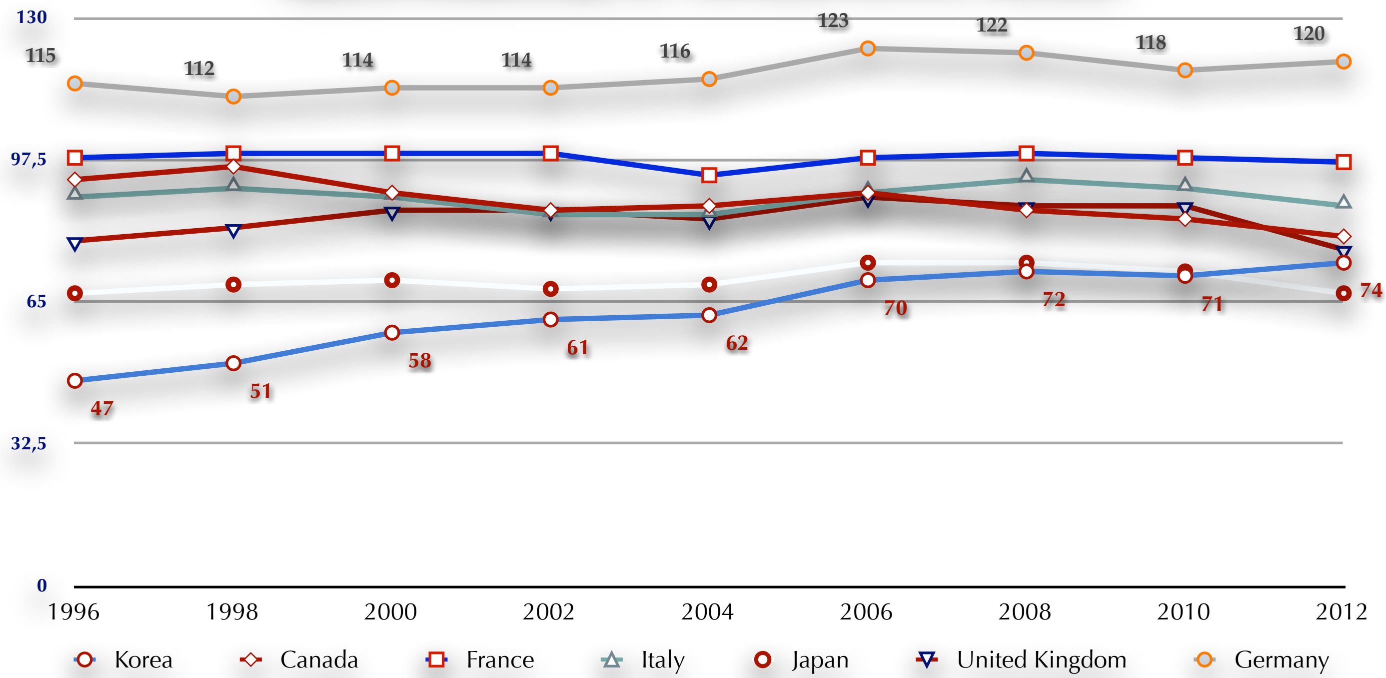
Chart 3.8: PPP real living wage rate equalisation indices (US=100) for production workers 1975 – 2009 (Korea vis-à-vis G7 economies)



As for all Koreans employed in the manufacturing sector, chart 3.9 shows Korea to be within the range of equalisation indices of the so-called G7, and in fact with a higher index than Japan in 2012. Given that data only goes as far back as 1996, the catch up of Korea's living wage equalisation wage rates with the top economies is not as dramatic as in the case of production-line workers, where data starts in 1975. Yet, a sustained closing of the gap is clearly observed, despite the 1997 Asian crisis and even during the present global crisis. In fact, Korea records its best equalisation index in 2012, whilst all other economies, baring Germany, record a gap increase between 2010 and 2012.

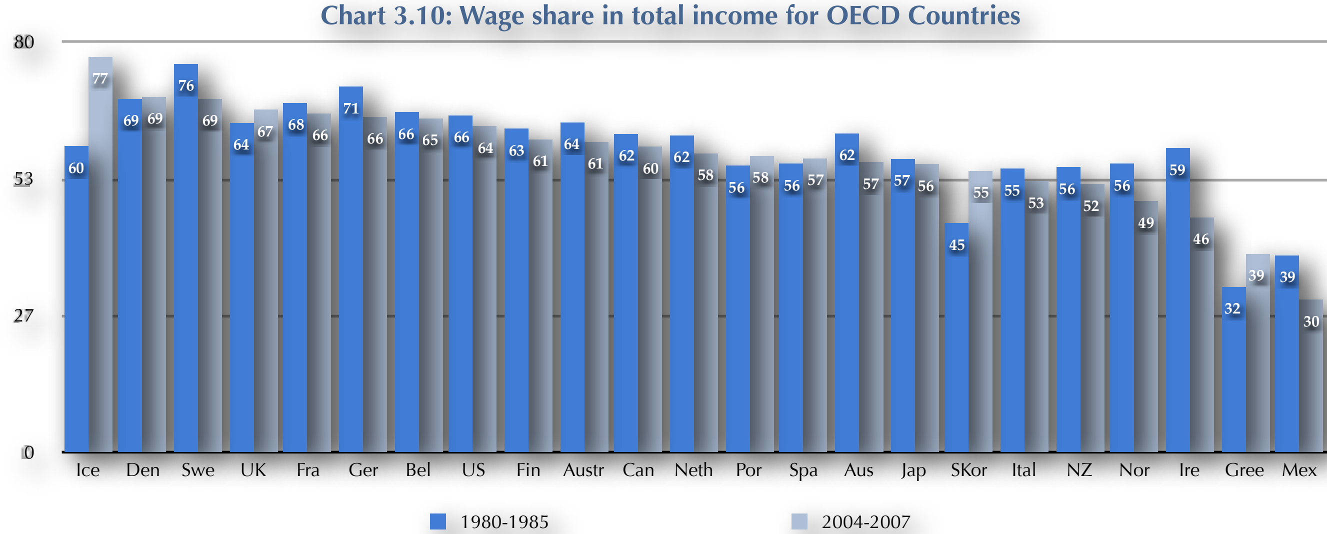
196 See: Álvaro J. de Regil: Mexico and living wages: the utmost epitomization of social darwinism as a systemic public policy, The Jus Semper Global Alliance, A TLWNSI Issue Assessment, February 2012.

Chart 3.9: PPP real living wage rate equalisation indices (US=100) for all employed in manufacturing 1996 – 2012 (Korea vis-à-vis G7 economies)



The comparison of wage shares of OECD countries confirms that the wages' share of income will decrease in most countries in subsequent years, particularly after 2010, once the predatory policies of the neoliberal mantra that are being deepened across the global system are reflected in these metrics. However, comparing the 1980-1985 period with the 2004-2007 period shows Korea's powerful increase of the wage's share of income, which grew 20 points, or 22,2%, only surpassed by Iceland's 28,3% growth. In contrast, the pauperisation of Mexico's workers in manufacturing and in the entire economy is further confirmed in the chart, where Mexico's wage share of total income is not only the lowest but also is of the country with the worst performance, with a drop of 22,3% in share, along with Ireland's 22,7%, a country that, incidentally, embarked on a sheer neoliberal spree, as shown on chart 3.10.[197]

Chart 3.10: Wage share in total income for OECD Countries

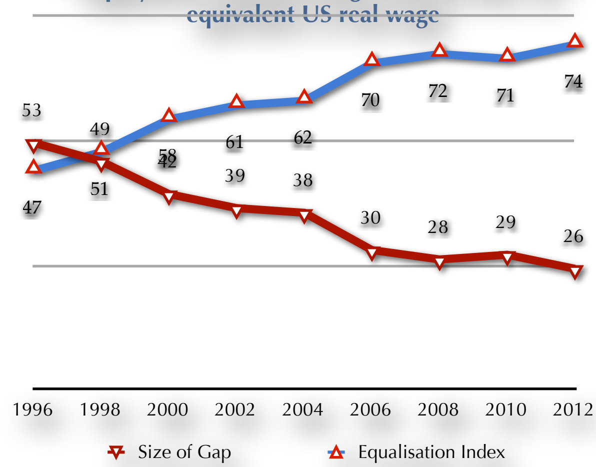


197 ILO: Global Wage Report 2010/11: Wage policies in times of crisis Geneva, International Labour Office, 2010 (Table 2, p.24)

➡ Sustainable growth of real wage equalisation with equivalent US wages

In brief, relative to living wages, Korean governments' economic policies since the start of its industrialisation era –addressed in detail in the preceding sections– compounded with the tortuous yet courageous and permanent struggle of workers for wages worthy of human dignity, triggered a sustained economic growth with equity. Most relevant is the fact that even during the Asian crisis and the current global recession, Korea's equalisation of its real wage rates in the manufacturing sector has been able to sustain the closing of its wage gap with equivalent US wages, as shown in chart 3.11. The gap has dropped since 1996 from 53% to only 26%, a 50% drop in sixteen years. This has produced a sharp increase in Korea's labour share of income across the entire economy, as previously noted. If we look further back, to 1975, the collapse of the gap is even more dramatic, as shown in table 3.7.

Chart 3.11: Trend between equalisation index and size of manufacturing hourly real wage rate gap for all employed in manufacturing in Korea vis-à- vis equivalent US real wage



Indeed, chart 3.12 provides a glimpse of Korea's successful and powerful increase of its equalisation of manufacturing wages for production workers with equivalent US workers from 1975 to its best equalisation index, recorded in 2007. During that period, equivalent US hourly wage rates increased by 306%. Korean hourly wage rates –equalised in PPP terms– increased nominally by 5036%. The Korean PPP cost of living increased 64% by 2007. A policy of containment of real wages –to maintain the same gap with equivalent US wages– would have entailed increasing nominal wages by only 564% (from $0,33 to $2,19) by 2007. To equalise wages in PPP terms –which would close the gap– would have required an increase of nominal wages of 6051% by 2007 (from $0,33 to $20,30). The actual result was the increase of 5036% nominally (from $0,33 to $16,95), which allowed Korea to increase its equalisation with US equivalent wages from a meagre 11% to 83%, a colossal achievement. Nominal wage rates were increased much more than PPP cost of living and nominal US wages. This allowed Korean wage rates for production workers to both catch up with their US counterparts and to contribute to the general increase of Korea's labour share of income, as earlier noted. The hefty increase of real wage rates of Korea's production workers is further corroborated by comparing the PPP cost of living index with its equalisation with the equivalent US wage rate index, as

Chart 3.12. Comparison of nominal hourly wage rates of Korea's production workers to close gap or maintain 1975 gap with US counterparts and actual best result (US dollars)

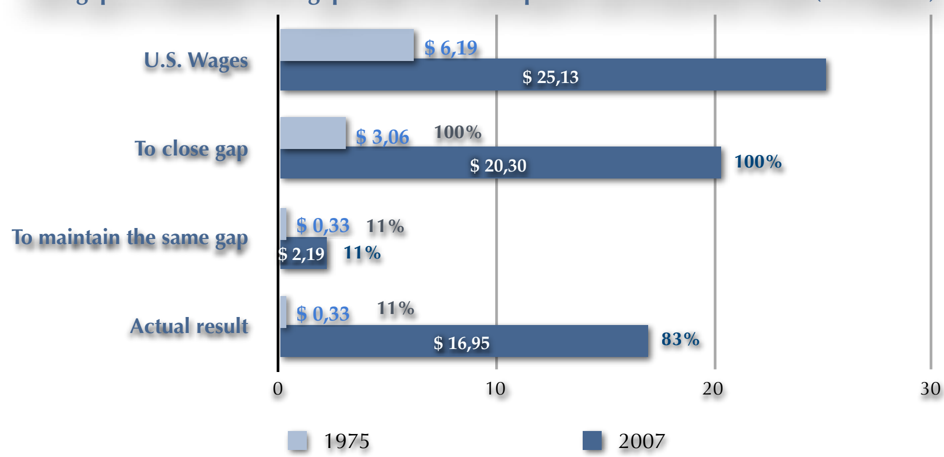
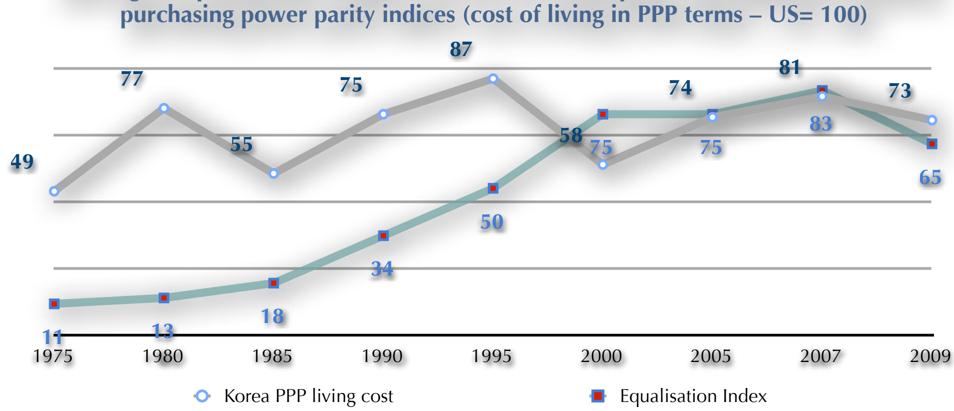


Chart 3.13. Performance of equalisation indices of Korea's PPP manufacturing hourly real wage for production workers vis-à-vis US counterparts and behaviour of Korea's purchasing power parity indices (cost of living in PPP terms – US= 100)



shown in chart 3.13. Korea's PPP cost of living was half (49%) of that of the US in 1975. But then it increased significantly to average around 70% between 1980 and 2009. Yet, wage rate equalisation with equivalent US wages grew steadily until 2000 where, subsequently, it has stabilised in the range of 70s –for both all employed in the manufacturing sector and production workers.

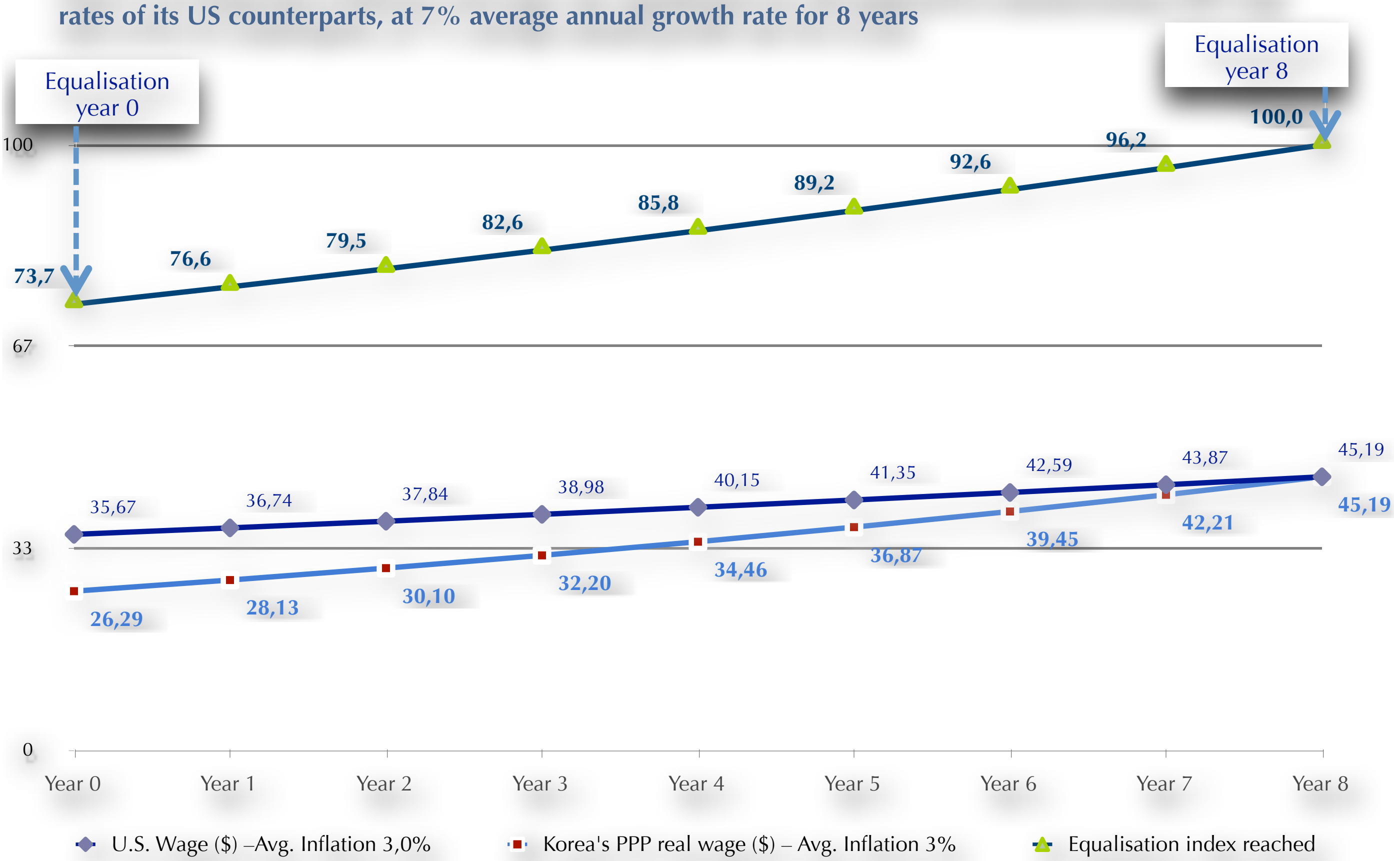
➡ Projection of Korea's real wage in the manufacturing sector

Using as the benchmark the wage rates (total labour compensation costs) for all employed in manufacturing in the US in 2012, chart 3.14 illustrates a projection estimating the time span required for Korean equivalent wage rates to close its living wage gap with its US counterparts. The projection increases real wages 4% above the consumer price index or rate of inflation, with annual increments of 3% for both the US and Korea. Actual inflation average rates for both economies between 2000 and 2012 are 2,4% and 3,1% respectively. As we have seen, Korean real wage rates' track record for all employed in manufacturing clearly shows a sustained growth since 1996. Moreover, the 2006-2012 period averages a 3,8% increase of real wage rates for these workers. Hence, it is realistic to make this projection using the latest trends on inflation and wage rates.

1. Criteria used in the projection:

- Average US CPI (inflation): 3% (average of 2,4% between 2000 and 2012).
- Average Korean CPI: 3% (average of 3,1% between 2000 and 2012).
- Real value of wages in the US remains constant, increasing nominally by 3%, annually, to neutralise inflation.
- PPP for implied private consumption in 2012 for Korea was $0,788, equivalent to 78,8% of the US cost of living in 2012.
- The benchmarks –and starting point– used in this projection are the PPP manufacturing hourly real wage rates for all employed in manufacturing (total compensation cost for both economies for 2012: US: $35,67 and Korea: $26,29; and nominal wages: $35,67 and $20,72 respectively).
- Real wage figures are shown at constant prices, reflecting future purchasing power after adjusting for inflation.
- The exchange rate between the US and Korea is assumed to remain fairly stable.

Chart 3.14: Projection of Korea's real wage rate equalisation for all employed in manufacturing with wage rates of its US counterparts, at 7% average annual growth rate for 8 years



2. Results of eight-year projection:

- Chart 3.14 shows the behaviour of real wages for both the US and Korea over an eight-year period.
- Results indicate that if Korean real wage rates for all employed in manufacturing are increased by 4% annually –after adjusting for inflation– it would take Korea eight years to fully close the wage gap with the wage rates of equivalent US workers.
- Nominal wages in Korea were increased 7% for eight years, assuming a 3% inflation rate.
- Not shown in the chart, the projection keeps Korea's PPP cost of living in PPP in year eight equivalent to 78,8% of the US cost of living, the same as in year 0, because the projection assumes that the CPI inflation rates for both countries will remain at fairly the rate of 3% annually, based on the average CPIs recorded since 2000.
- Closing the wage gap would cover the 2013 to 2020 span of time.

Chart 3.15 compares projections to close the living wage gap for Korea and Mexico in the manufacturing sector. Korea needs only eight years to close the gap with equivalent US workers given that it has similar inflation rates (3%) to those in the US and its equalisation index is already much closer at 73.4 than Mexico's, due to its growth with equity past record. In contrast, Mexico would require thirty years to close the gap, given that its average inflation rate is slightly higher than 5% and its equalisation index is much lower at only 26,2 due to its wage contention policies. Furthermore, while Korea would need to increase nominal wages an average of 7% annually, Mexico would need to do it by 9,78% annually or take even more years to close the gap, if there ever is the political will to accomplish this. Table 3.6 provides the comparative details of both projections.

Chart 3.15: Real living wage rate equalisation projections for Korea's and Mexico's manufacturing sector with equivalent US wages

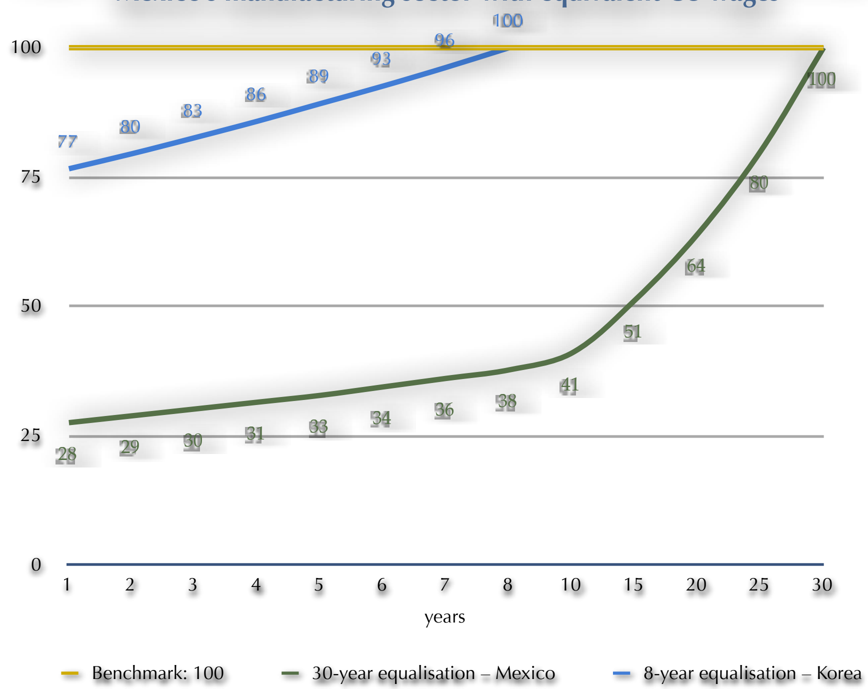


Table 3.6: Comparison of living-wage equalisation projections for Korea and Mexico

(nominal wage encompasses total compensation costs)	Average nominal wage increase/Yr.	Inflation rate	PPP Index Year 0	Nominal wage Year 0	Equalisation index achieved Year 0	Years to close wage gap	PPP in final year	Nominal wage in final year	Real wage in final year
Korea - eight year projection	7%	3%	78,8	$20,72	73,7	8	78,8	$35,62	$45,19
United States	3%	3%	100	$35,67	100	-	100	$45,19	$45,19
Mexico 30-year	9,78	5%	67,9	$6,36	26,2	30	121	104,75	86,58
United States	3%	3%	100	$35,67	100	-	100	$86,58	$86,58

➡ Summing up

- ***Not a forecasting analysis.*** These projections at no time pretend to forecast what would be the inflationary indices or the rates of wage increases that will occur in Korea, the US or elsewhere in the future. For this paper, the average behaviour of these indicators has been established in a discretionary manner –based on the data recorded over the last three decades– with the only purpose of projecting a concrete scenario under these assumptions to derive a comparative analysis to the closing of Korea's living-wage gap.

- ***A realistic endeavour.*** Closing the real wage gap with US equivalent workers for Korea in the time span of eight years is a completely realistic goal from the perspective of social justice on which our The Living Wages North and South initiative (TLWNSI) is anchored. If governments pretend to be democratic, then workers in a globalised world must earn equal pay for equal work in purchasing power parity terms. Completely opposite to a truly democratic ethos, the institutional investors of investment markets have managed to put themselves in command of public policy to steer it in the opposite direction. In this way, we have observed the growing labour polarisation that has been taking place since the end of last century in Korea and in much of the world, where an increasingly smaller segment of the work force enjoys living wages, labour rights and employment stability and the rest is increasingly joining the "precariat". However, Korea's real wages in the manufacturing sector have shown resilience, and if they no longer grow at the pace they used to, they still appear to defend their position and increase in real terms in small increases. Economic policy will surely be influenced by powerful global supply-side pressures to cut labour compensation in favour of shareholder value. Yet, ultimately it is up to Korean workers to remain vigilant and active, as they have been in the past, to protect the ground gained and to further increase Korea's labour share of income.

- ***A question of political will.*** The only essential element to completely close Korea's living wage gap is political will. Thus, it is in the interest of workers and society to force the political will on their governments. As we have seen in the diverse cases of Argentina, Brazil and South Korea, political economy can be strategically designed and managed to alter the status quo and fulfil –at the very least in the fundamental case of wages– the only purpose of truly democratic governments: to procure the welfare of every rank of society, with special emphasis on the dispossessed. Argentina has been embattled by private creditors and multilateral financial institutions. Yet, it paid off its debt with the IMF –to free itself from the Fund's purely supply-side demands– and, among other things, made a point of boosting real wages for the entire economy in a sustainable manner at the fastest possible pace. South Korea made endogenous demand-side development the centre of its political economy since the 1960s. Brazil has chosen to link real wage growth to GDP growth. The three have followed different paths to wage appreciation. Nonetheless, and irrespective of their particular geopolitics and of the oppressive demands of an international-financial-markets-driven predatory globalisation, they have shown in the past the political will to not comply with the central demand of eroding the workers' share of income. Thus, again, it is up to Korean's to make their governments fulfil their democratic responsibility.

- ***Closing a living-wage gap requires annual hike adjustments in line with inflationary trends.*** As in the case of any country with the political will to equalise wages –following the principle of equal pay for equal work of equal value– to realistically close its living-wage gap, under any scenario, ideally, Korea would need to set a time span to accomplish this goal and determine real wage increases on an annual basis, based on the actual inflationary rates that its economy experiences, so that the rate of increase is adjusted annually accordingly. Once the time is set, the average wage hike projected to close the gap would need to be adjusted annually to offset the previous year's inflation and meet the goal within the timeline set. This is the approach proposed by TLWNSI's living-wage concept, which, by the way, it is quite similar to Brazil's minimum wage appreciation policy.

❖ *Corollary*

Korea's ascension from a state of dire poverty to an ethos where the vast majority of Koreans enjoy a dignified quality of life is truly a remarkable event worthy of admiration. Few developing countries have achieved true human development progress that permeates through all ranks of society, nor they have done it to such an extent as Korea and sustained it through time. Indeed, Korea is easily the most dramatic case of social progress in almost every indicator, including education, healthcare, life expectancy, social services, urban infrastructure, transportation, telecommunications and many others. It is also unique in being able to combine GDP growth with social equity, to the point that it has fully placed itself among the ranks of developed economies, leaving behind the so-called emerging markets, which customarily have high indices of inequality. It is unique not due to a clear political objective from its governments to establish an ethos of social justice, but due to a combination of nationalistic fervour and workers' struggle, enough to make the Korean oligarchies cede the ground necessary for the evolvement of a predominantly middle-class society. It is hard to assess how much was social pressure and how much was the political will of those in power, but it is safe to assert that it was a mix of social struggle and the State's penchant for nationalistic development that successfully combined to lift Korea into the ranks of developed nations. It is quite likely that equitable development was not a conscious and visionary trait of Korea's governments but rather an unintended consequence of its protectionist policies to develop a competitive capitalistic economy. Yet, in contrast with most developing countries, Korean governments did not fight the social gains already obtained through social struggle. Unlike countries such as Mexico, Korean governments and the chaebol oligarchies appeared to tortuously recognise the inherent benefits of a sustained increase of aggregate demand, allowing in this way the emergence of a middle-class society. As part of its nationalistic fervour, Korea stands out for its unrelenting resolve to invest in key productive assets (education, healthcare, training) that, while they enable Koreans to be more skilful, resourceful and productive, they also enhance the quality of life of the citizenry. The same can be said about its emphasis on the development of a truly domestic technological prowess in many economic sectors by investing from the very early stages in R&D to reduce Korea's dependency on foreign technologies. In fact, Korea's development programs were always anchored on a nationalistic platform that permeated through every aspect of public policy, from monetary and fiscal policy to foreign direct investment, trade and the promotion of domestic savings, among others. Moreover, the fact that both Korea's authoritarian and so-called democratic governments made a point to put the State in the driver's seat, with a very visible hand, to closely guide economic development, is the emblematic proof that the role of the State as the regulator of public and private interests is essential to achieve true development; for the only raison d'être of any government that pretends to work on behalf of its citizenry is to procure the welfare of every rank of society, and with special emphasis on the dispossessed. Otherwise, the natural predatory instincts of capitalism would seek to maximise profit over people at the expense of all other participants. In this way, Korea's path followed during the second half of last century completely discredits the neoliberal mantra of free marketeering, particularly when we observe the disastrous results of countries that stopped acting as precursors of development and economic regulators to embark on a neoliberal spree that left everything to the forces of those who control the system. To be sure, Iberian America is the best laboratory of the neoliberal paradigm, with Mexico representing a paradigmatic epitome of what happens when the neoliberal mantra, or any kind of capitalism, is unabatedly imposed upon societies.

Unfortunately, times have changed globally with the imposition of a sheer supply-side paradigm in favour of the global institutional investors. Despite its axiomatic unsustainability, marketocracy has managed to reduce –through sheer graft– the role of the State to its minimum expression, forcing Korea to lose control of its economy and compete in an ethos dominated by the maximisation of shareholder value. Yet, Korea's workers share of income so far appears to hold its ground. Real wages are no longer growing as they used to, but as we have observed in the case of living-wage equalisation in manufacturing, they are still slowly reducing their gap with equivalent US wages, despite the current global recession and in contrast to most major economies. Nonetheless, neoliberalism is deliberately engendering a growing labour polarisation with an elite class of workers enjoying very adequate wages, benefits and job security, whilst most are losing the entitlements that they once enjoyed, and instead are joining the ranks of non-regular workers. Hence, there is now a growing Korean *precariat*; the global phenomenon where workers lose jobs, rights and compensations in favour of shareholder value, in a global neo-capitalist assault on democracy, labour and human rights, just to quench the never ending greed of those who are in control of the system. Indeed, the institutional investors of global financial markets have turned governments into their agents to impose their private agenda. Thus, as in the rest of the world, it is up to Korean society to organise and to put a stop to the unsustainable predatory structures of the market in favour of the long-term sustainability of people and planet in a manner worthy of human dignity.

Useful links:

- http://www.jussemper.org
- Bureau of Labour Statistics: http://www.bls.gov/fls/home.htm
- World Bank – World Development Indicators: http://data.worldbank.org/indicator
- World Bank – International Comparisons Programme: http://siteresources.worldbank.org/ICPEXT/Resources/ICP_2011.html

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Appendix:

Table-T5 – Living-Wage Gap and Equalisation analysis (vis-à-vis the U.S.) for all employed in the manufacturing sector in purchasing power parity terms 1996-2012 for Korea and selected economies

		1996	1998	2000	2002	2004	2006	2008	2010	2012
Benchmark	1. U.S. Hourly Manufacturing Wage Rate* (Hourly compensation costs)	22,47	23,49	24,96	27,36	29,31	30,48	32,78	34,81	35,67
South Korea	PPP conversion factor, GDP (in country currency)	731,420	773,443	746,166	769,318	795,939	774,431	783,377	824,389	872,490
	Exchange rate	805,00	1400,40	1130,90	1250,31	1145,24	954,32	1098,71	1155,739	1106,94
	PPP conversion factor, GDP (in U.S. dollars)	$ 0,91	$ 0,55	$ 0,66	$ 0,62	$ 0,70	$ 0,81	$ 0,71	$ 0,71	$ 0,79
	2. Equalised PPP nominal wage rate US $	$ 20,42	$ 12,97	$ 16,47	$ 16,83	$ 20,37	$ 24,73	$ 23,37	$ 24,83	$ 28,12
	3. Actual Real wage rate US $	$ 10,50	$ 11,99	$ 14,58	$ 16,66	$ 18,17	$ 21,40	$ 23,63	$ 24,86	$ 26,29
	4. Actual Nominal wage rate US $	$ 9,54	$ 6,62	$ 9,62	$ 10,25	$ 12,63	$ 17,37	$ 16,85	$ 17,73	$ 20,72
	Compensation Deficit in US $ (2 minus 4)	$ 10,88	$ 6,35	$ 6,85	$ 6,58	$ 7,74	$ 7,36	$ 6,52	$ 7,10	$ 7,40
	Wage Equalisation index (4÷2 or 3÷1)	0,47	0,51	0,58	0,61	0,62	0,70	0,72	0,71	0,74
Mexico	PPP conversion factor, GDP (in country currency)	3,764	4,974	6,101	6,558	7,220	7,191	7,478	7,906	8,939
	Exchange rate	7,60	9,15	9,5	9,7	11,29	10,91	11,14	12,624	13,150
	PPP conversion factor, GDP (in U.S. dollars)	$ 0,50	$ 0,54	$ 0,65	$ 0,68	$ 0,640	$ 0,66	$ 0,67	$ 0,63	$ 0,68
	2. Equalised PPP nominal wage rate US $	$ 11,13	$ 12,77	$ 16,10	$ 18,57	$ 18,74	$ 20,10	$ 22,00	$ 21,80	$ 24,25
	3. Actual PPP Real wage rate US $	$ 6,16	$ 6,57	$ 7,29	$ 8,24	$ 8,23	$ 8,92	$ 9,64	$ 9,80	$ 9,36
	4. Actual Nominal wage rate US $	$ 3,05	$ 3,57	$ 4,70	$ 5,59	$ 5,26	$ 5,88	$ 6,47	$ 6,14	$ 6,36
	Compensation Deficit in US $ (2 minus 4)	$ 8,08	$ 9,20	$ 11,40	$ 12,98	$ 13,48	$ 14,22	$ 15,53	$ 15,66	$ 17,89
	Wage Equalisation index (4÷2 or 3÷1)	0,27	0,28	0,29	0,30	0,28	0,29	0,29	0,28	0,26
Canada	PPP conversion factor, GDP (in country currency)	1,213	1,188	1,232	1,230	1,231	1,207	1,233	1,219	1,287
	Exchange rate	1,3638	1,4836	1,4855	1,5704	1,3017	1,1340	1,0660	1,030	0,9995
	PPP conversion factor, GDP (in U.S. dollars)	$ 0,89	$ 0,80	$ 0,83	$ 0,78	$ 0,95	$ 1,06	$ 1,16	$ 1,18	$ 1,29
	2. Equalised PPP nominal wage rate US $	$ 19,99	$ 18,80	$ 20,70	$ 21,43	$ 27,73	$ 32,46	$ 37,92	$ 41,19	$ 45,93
	3. Actual PPP Real wage rate US $	$ 20,93	$ 22,54	$ 22,46	$ 23,40	$ 25,41	$ 27,28	$ 28,11	$ 29,24	$ 28,42
	4. Actual Nominal wage rate US $	$ 18,62	$ 18,04	$ 18,63	$ 18,33	$ 24,04	$ 29,05	$ 32,52	$ 34,60	$ 36,59
	Compensation Deficit in US $ (2 minus 4)	$ 1,37	$ 0,76	$ 2,07	$ 3,10	$ 3,69	$ 3,41	$ 5,40	$ 6,59	$ 9,34
	Wage Equalisation index (4÷2 or 3÷1)	0,93	0,96	0,90	0,86	0,87	0,90	0,86	0,84	0,80
Brazil	PPP conversion factor, GDP (in country currency)	0,799	0,867	0,964	1,114	1,308	1,394	1,520	1,727	1,872
	Exchange rate	1,0051	1,1605	1,830	2,9213	2,9262	2,1738	1,8326	1,760	1,953
	PPP conversion factor, GDP (in U.S. dollars)	$ 0,80	$ 0,75	$ 0,53	$ 0,38	$ 0,45	$ 0,64	$ 0,83	$ 0,98	$ 0,96
	2. Equalised PPP nominal wage rate US $	$ 17,86	$ 17,56	$ 13,15	$ 10,43	$ 13,10	$ 19,54	$ 27,18	$ 34,16	$ 34,19
	3. Actual PPP Real wage rate US $	$ 8,94	$ 9,03	$ 8,26	$ 8,08	$ 8,55	$ 9,34	$ 10,18	$ 10,27	$ 11,69
	4. Actual Nominal wage rate US $	$ 7,11	$ 6,75	$ 4,35	$ 3,08	$ 3,82	$ 5,99	$ 8,44	$ 10,08	$ 11,20
	Compensation Deficit in US $ (2 minus 4)	$ 10,75	$ 10,81	$ 8,80	$ 7,35	$ 9,28	$ 13,55	$ 18,74	$ 24,08	$ 22,99
	Wage Equalisation index (4÷2 or 3÷1)	0,40	0,38	0,33	0,30	0,29	0,31	0,31	0,30	0,33
Argentina	PPP conversion factor, GDP (in country currency)	0,931	0,881	0,843	1,048	1,205	1,393	1,887	2,805	4,060
	Exchange rate	0,9997	0,9995	0,9995	3,0633	2,9233	3,0543	3,1442	3,8963	4,5369
	PPP conversion factor, GDP (in U.S. dollars)	$ 0,93	$ 0,88	$ 0,84	$ 0,34	$ 0,41	$ 0,46	$ 0,60	$ 0,72	$ 0,89
	2. Equalised PPP nominal wage rate US $	$ 20,93	$ 20,71	$ 21,06	$ 9,36	$ 12,08	$ 13,90	$ 19,67	$ 25,06	$ 31,92
	3. Actual PPP Real wage rate US $	$ 7,98	$ 9,08	$ 9,67	$ 8,80	$ 10,94	$ 14,53	$ 16,73	$ 17,75	$ 21,09
	4. Actual Nominal wage rate US $	$ 7,43	$ 8,01	$ 8,16	$ 3,01	$ 4,51	$ 6,63	$ 10,04	$ 12,78	$ 18,87
	Compensation Deficit in US $ (2 minus 4)	$ 13,50	$ 12,70	$ 12,90	$ 6,35	$ 7,57	$ 7,27	$ 9,63	$ 12,28	$ 13,05
	Wage Equalisation index (4÷2 or 3÷1)	0,35	0,39	0,39	0,32	0,37	0,48	0,51	0,51	0,59

		1996	1998	2000	2002	2004	2006	2008	2010	2012
Benchmark	1. U.S. Hourly Manufacturing Wage Rate* (Hourly compensation costs)	22,47	23,49	24,96	27,36	29,31	30,48	32,78	34,81	35,67
France	PPP conversion factor, GDP (in country currency)	6,483	6,341	0,937	0,901	0,938	0,901	0,878	0,866	0,895
	Exchange rate	5,1158	5,8995	1,0832	1,0578	0,8040	0,7960	0,6791	0,7541	0,778
	PPP conversion factor, GDP (in U.S. dollars)	$ 1,27	$ 1,07	$ 0,87	$ 0,85	$ 1,17	$ 1,13	$ 1,29	$ 1,15	$ 1,15
	2. Equalised PPP nominal wage rate US $	$ 28,47	$ 25,25	$ 21,59	$ 23,30	$ 34,21	$ 34,51	$ 42,39	$ 39,96	$ 41,01
	3. Actual PPP Real wage rate US $	$ 21,95	$ 23,23	$ 24,70	$ 27,16	$ 27,54	$ 29,89	$ 32,29	$ 34,08	$ 34,63
	4. Actual Nominal wage rate US $	$ 27,82	$ 24,97	$ 21,37	$ 23,13	$ 32,14	$ 33,85	$ 41,76	$ 39,12	$ 39,81
	Compensation Deficit in US $ (2 minus 4)	$ 0,65	$ 0,28	$ 0,22	$ 0,17	$ 2,07	$ 0,66	$ 0,63	$ 0,84	$ 1,20
	Wage Equalisation index (4÷2 or 3÷1)	0,98	0,99	0,99	0,99	0,94	0,98	0,99	0,98	0,97
Spain	PPP conversion factor, GDP (in country currency)	119,447	119,588	0,732	0,730	0,758	0,734	0,716	0,710	0,783
	Exchange rate	126,68	149,41	1,0832	1,058	0,804	0,796	0,6791	0,7541	0,778
	PPP conversion factor, GDP (in U.S. dollars)	$ 0,94	$ 0,80	$ 0,68	$ 0,69	$ 0,94	$ 0,92	$ 1,05	$ 0,94	$ 1,01
	2. Equalised PPP nominal wage rate US $	$ 21,19	$ 18,80	$ 16,88	$ 18,88	$ 27,63	$ 28,12	$ 34,58	$ 32,76	$ 35,90
	3. Actual PPP Real wage rate US $	$ 16,42	$ 17,68	$ 18,34	$ 20,07	$ 21,02	$ 23,63	$ 26,31	$ 28,33	$ 26,66
	4. Actual Nominal wage rate US $	$ 15,48	$ 14,15	$ 12,40	$ 13,85	$ 19,82	$ 21,80	$ 27,75	$ 26,66	$ 26,83
	Compensation Deficit in US $ (2 minus 4)	$ 5,71	$ 4,65	$ 4,48	$ 5,03	$ 7,81	$ 6,32	$ 6,83	$ 6,10	$ 9,07
	Wage Equalisation index (4÷2 or 3÷1)	0,73	0,75	0,73	0,73	0,72	0,78	0,80	0,81	0,75
Germany	PPP conversion factor, GDP (in country currency)	1,942	1,932	0,965	0,938	0,895	0,836	0,807	0,803	0,835
	Exchange rate	1,5049	1,7597	1,0832	1,0578	0,8040	0,7960	0,6791	0,7541	0,778
	PPP conversion factor, GDP (in U.S. dollars)	$ 1,29	$ 1,10	$ 0,89	$ 0,89	$ 1,11	$ 1,05	$ 1,19	$ 1,07	$ 1,07
	2. Equalised PPP nominal wage rate US $	$ 28,99	$ 25,78	$ 22,23	$ 24,25	$ 32,63	$ 32,02	$ 38,97	$ 37,07	$ 38,28
	3. Actual PPP Real wage rate US $	$ 25,75	$ 26,35	$ 28,53	$ 31,17	$ 33,88	$ 37,48	$ 39,98	$ 41,15	$ 42,67
	4. Actual Nominal wage rate US $	$ 33,22	$ 28,92	$ 25,41	$ 27,63	$ 37,72	$ 39,37	$ 47,53	$ 43,83	$ 45,79
	Compensation Deficit in US $ (2 minus 4)	$ (4,23)	$ (3,14)	$ (3,18)	$ (3,38)	$ (5,09)	$ (7,35)	$ (8,56)	$ (6,76)	$ (7,51)
	Wage Equalisation index (4÷2 or 3÷1)	1,15	1,12	1,14	1,14	1,16	1,23	1,22	1,18	1,20
United Kingdom	PPP conversion factor, GDP (in country currency)	0,641	0,644	0,635	0,626	0,632	0,625	0,645	0,656	0,708
	Exchange rate	0,6407	0,6034	0,6598	0,666	0,5456	0,5425	0,5392	0,6472	0,6233
	PPP conversion factor, GDP (in U.S. dollars)	$ 1,00	$ 1,07	$ 0,96	$ 0,94	$ 1,16	$ 1,15	$ 1,20	$ 1,01	$ 1,14
	2. Equalised PPP nominal wage rate US $	$ 22,48	$ 25,09	$ 24,02	$ 25,74	$ 33,94	$ 35,14	$ 39,22	$ 35,28	$ 40,50
	3. Actual PPP Real wage rate US $	$ 17,77	$ 19,36	$ 21,48	$ 23,49	$ 24,61	$ 27,09	$ 28,58	$ 28,72	$ 27,51
	4. Actual Nominal wage rate US $	$ 17,78	$ 20,68	$ 20,67	$ 22,10	$ 28,50	$ 31,23	$ 34,20	$ 29,11	$ 31,23
	Compensation Deficit in US $ (2 minus 4)	$ 4,70	$ 4,41	$ 3,35	$ 3,64	$ 5,44	$ 3,91	$ 5,02	$ 6,17	$ 9,27
	Wage Equalisation index (4÷2 or 3÷1)	0,79	0,82	0,86	0,86	0,84	0,89	0,87	0,83	0,77
Belgium	PPP conversion factor, GDP (in country currency)	36,811	37,294	0,889	0,861	0,895	0,882	0,869	0,857	0,897
	Exchange rate	30,9700	36,3100	1,0832	1,0578	0,8040	0,7960	0,6791	0,7541	0,778
	PPP conversion factor, GDP (in U.S. dollars)	$ 1,19	$ 1,03	$ 0,82	$ 0,81	$ 1,11	$ 1,11	$ 1,28	$ 1,14	$ 1,15
	2. Equalised PPP nominal wage rate US $	$ 26,71	$ 24,13	$ 20,48	$ 22,28	$ 32,63	$ 33,76	$ 41,94	$ 39,57	$ 41,12
	3. Actual PPP Real wage rate US $	$ 27,52	$ 28,53	$ 31,85	$ 34,09	$ 35,89	$ 38,37	$ 42,11	$ 44,62	$ 45,27
	4. Actual Nominal wage rate US $	$ 32,71	$ 29,30	$ 26,14	$ 27,76	$ 39,95	$ 42,49	$ 53,88	$ 50,72	$ 52,19
	Compensation Deficit in US $ (2 minus 4)	$ (6,00)	$ (5,17)	$ (5,66)	$ (5,48)	$ (7,32)	$ (8,73)	$ (11,94)	$ (11,15)	$ (11,07)
	Wage Equalisation index (4÷2 or 3÷1)	1,22	1,21	1,28	1,25	1,22	1,26	1,28	1,28	1,27

			1996	1998	2000	2002	2004	2006	2008	2010	2012
Benchmark	**1. U.S. Hourly Manufacturing Wage Rate*** (Hourly compensation costs)		**22,47**	**23,49**	**24,96**	**27,36**	**29,31**	**30,48**	**32,78**	**34,81**	**35,67**
Czech Rep.	PPP conversion factor, GDP (in country currency)		11,949	13,884	14,212	14,320	14,292	14,032	14,263	14,211	13,911
	Exchange rate		27,1450	32,2810	38,5980	32,7390	25,7000	22,5956	17,0717	19,0983	17,6959
	PPP conversion factor, GDP (in U.S. dollars)	$	0,44 $	0,43 $	0,37 $	0,44 $	0,56 $	0,62 $	0,84 $	0,74 $	0,79
	2. Equalised PPP nominal wage rate US $	$	9,89 $	10,10 $	9,19 $	11,97 $	16,30 $	18,93 $	27,39 $	25,90 $	28,04
	3. Actual PPP Real wage rate US $	$	7,68 $	8,25 $	9,23 $	10,54 $	11,81 $	13,14 $	14,64 $	15,60 $	15,20
	4. Actual Nominal wage rate US $	$	3,38 $	3,55 $	3,40 $	4,61 $	6,57 $	8,16 $	12,23 $	11,61 $	11,95
	Compensation Deficit in US $ (2 minus 4)	$	6,51 $	6,55 $	5,79 $	7,36 $	9,73 $	10,77 $	15,16 $	14,29 $	16,09
	Wage Equalisation index (4÷2 or 3÷1)		0,34	0,35	0,37	0,39	0,40	0,43	0,45	0,45	0,43
Japan	PPP conversion factor, GDP (in country currency)		170,600	166,684	154,807	143,578	134,356	124,733	116,883	111,360	117,543
	Exchange rate		108,78	130,99	107,80	125,22	108,15	116,31	103,39	87,78	79,70
	PPP conversion factor, GDP (in U.S. dollars)	$	1,57 $	1,27 $	1,44 $	1,15 $	1,24 $	1,07 $	1,13 $	1,27 $	1,47
	2. Equalised PPP nominal wage rate US $	$	35,24 $	29,89 $	35,84 $	31,37 $	36,41 $	32,69 $	37,06 $	44,16 $	52,61
	3. Actual PPP Real wage rate US $	$	15,09 $	16,18 $	17,42 $	18,73 $	20,34 $	22,41 $	24,31 $	25,03 $	23,96
	4. Actual Nominal wage rate US $	$	23,67 $	20,59 $	25,02 $	21,48 $	25,27 $	24,03 $	27,48 $	31,75 $	35,34
	Compensation Deficit in US $ (2 minus 4)	$	11,57 $	9,30 $	10,82 $	9,89 $	11,14 $	8,66 $	9,58 $	12,41 $	17,27
	Wage Equalisation index (4÷2 or 3÷1)		0,67	0,69	0,70	0,68	0,69	0,74	0,74	0,72	0,67
Singapore	PPP conversion factor, GDP (in country currency)		1,293	1,414	1,217	1,114	1,059	1,017	0,932	0,988	1,056
	Exchange rate		1,410	1,672	1,725	1,791	1,690	1,588	1,414	1,363	1,249
	PPP conversion factor, GDP (in U.S. dollars)	$	0,92 $	0,85 $	0,71 $	0,62 $	0,63 $	0,64 $	0,66 $	0,73 $	0,85
	2. Equalised PPP nominal wage rate US $	$	20,60 $	19,87 $	17,60 $	17,02 $	18,37 $	19,51 $	21,61 $	25,24 $	30,15
	3. Actual PPP Real wage rate US $	$	13,01 $	13,56 $	16,60 $	19,51 $	21,07 $	21,51 $	28,63 $	26,34 $	28,58
	4. Actual Nominal wage rate US $	$	11,93 $	11,47 $	11,71 $	12,14 $	13,20 $	13,77 $	18,87 $	19,10 $	24,16
	Compensation Deficit in US $ (2 minus 4)	$	8,67 $	8,40 $	5,89 $	4,88 $	5,17 $	5,74 $	2,74 $	6,14 $	5,99
	Wage Equalisation index (4÷2 or 3÷1)		0,58	0,58	0,67	0,71	0,72	0,71	0,87	0,76	0,80
Australia	PPP conversion factor, GDP (in country currency)		1,276	1,401	1,421	1,286	1,317	1,399	1,551	1,465	1,541
	Exchange rate		1,2775	1,5896	1,7197	1,84	1,3578	1,3271	1,1714	1,087	0,966
	PPP conversion factor, GDP (in U.S. dollars)	$	1,00 $	0,88 $	0,83 $	0,70 $	0,97 $	1,05 $	1,32 $	1,35 $	1,60
	2. Equalised PPP nominal wage rate US $	$	22,44 $	20,71 $	20,62 $	19,13 $	28,42 $	32,13 $	43,41 $	46,91 $	56,92
	3. Actual PPP Real wage rate US $	$	19,19 $	19,45 $	19,91 $	24,91 $	27,59 $	27,67 $	27,12 $	29,44 $	29,88
	4. Actual Nominal wage rate US $	$	19,17 $	17,15 $	16,45 $	17,42 $	26,75 $	29,17 $	35,91 $	39,67 $	47,68
	Compensation Deficit in US $ (2 minus 4)	$	3,27 $	3,56 $	4,17 $	1,71 $	1,67 $	2,96 $	7,50 $	7,24 $	9,24
	Wage Equalisation index (4÷2 or 3÷1)		0,85	0,83	0,80	0,91	0,94	0,91	0,83	0,85	0,84
New Zealand	PPP conversion factor, GDP (in country currency)		1,481	1,425	1,388	1,559	1,531	1,487	1,468	1,510	1,601
	Exchange rate		1,454	1,865	2,189	2,153	1,505	1,540	1,398	1,386	1,235
	PPP conversion factor, GDP (in U.S. dollars)	$	1,02 $	0,76 $	0,63 $	0,72 $	1,02 $	0,97 $	1,05 $	1,09 $	1,30
	2. Equalised PPP nominal compensation US $	$	22,89 $	17,94 $	15,83 $	19,81 $	29,82 $	29,43 $	34,41 $	37,93 $	46,23
	3. Actual Real compensation US $	$	11,89 $	13,13 $	14,19 $	13,49 $	14,53 $	16,31 $	18,24 $	18,74 $	19,11
	4. Actual Nominal compensation US $	$	12,11 $	10,03 $	9,00 $	9,77 $	14,78 $	15,75 $	19,15 $	20,42 $	24,77
	Compensation Deficit in US $ (2 minus 4)	$	10,78 $	7,91 $	6,83 $	10,04 $	15,04 $	13,68 $	15,26 $	17,51 $	21,46
	Wage Equalisation index (4÷2 or 3÷1)		0,53	0,56	0,57	0,49	0,50	0,54	0,56	0,54	0,54

***Definitions:**

- PPPs stands for Purchasing-Power Parities, which reflect the currency units in a given currency that are required to buy the same goods and services that can be purchased in the base country with one currency unit. This analysis uses the U.S. and the U.S. dollar as the benchmark and assumes that the U.S. wage is a living wage.
- The hourly manufacturing wage rate is the "hourly compensation cost" as defined by the U.S. Department of Labour, Bureau of Labour Statistics: This includes (1) hourly direct pay and (2) employer social insurance expenditures and other labour taxes. Hourly direct pay includes all payments made directly to the worker, before payroll deductions of any kind, consisting of pay for time worked and other direct pay. Social insurance expenditures and other labour taxes refers to the value of social contributions incurred by employers in order to secure entitlement to social benefits for their employees.
- PPP conversion factor, GDP (Gross National Income) in country currency express the number of country currency units required to buy the same goods and services a U.S. dollar can buy in the U.S.
- Exchange rate is nominal exchange rate.
- PPP conversion factor, GDP in U.S. dollars expresses the U.S. dollar units required in a given country to buy the same goods and services a U.S. dollar can buy in the U.S. If the PPP is less than 1, a U.S. dollar can buy more in the country in question because the cost of living is lower, and viceversa.
- The GDP PPP, expressed in national currency, reflects the exchange rate in comparison with the market exchange rate, which does not reflect the ratio of prices.
- Equalised PPP nominal wage rate is the hourly U.S. dollar nominal rate required to equally compensate a worker in a country, in purchasing power terms, for equal work rendered, as the equivalent U.S. worker is compensated. This analysis assumes the U.S. wage to be a living-wage. A living wage is a human right in accordance with Article 23 of the UN Universal Declaration of Human Rights. ILO's Convention 100 of "equal pay for equal work", for men and women is hereby applied in a global context.
- Actual PPP Real wage rate is the hourly wage paid in a given country in purchasing power terms.
- Actual Nominal wage rate is the nominal hourly wage paid in a given country.
- Compensation deficit expresses the wage gap between the hourly nominal wage rate paid (4) and the equalised PPP hourly rate that should be paid for equal work (2).
- Compensation equalisation index expresses the ratio of actual nominal pay to equalised PPP hourly pay (4 between 2): or the ratio of actual real pay (3) to the hourly nominal pay benchmark (1) (3 between 1).
- Note: Variations in previous years are due to revisions made by the sources, including the World Bank's new 2005 PPP benchmarks, which replaced the previous 1993 benchmarks. According to the World Bank, the 2005 PPPs are the most comprehensive for developing countries since 1993, and reveal that the size of their economies were often overestimated.

Sources: The Jus Semper Global Alliance analysis using the sources below. (Sources with X indicate that some of their data is directly incorporated in the table:)

- Database of World Bank's World Development Indicators, 1975-2012, and OECD PPPS for PRivate Consumption (GDP & GDP PPP)

X Hourly Compensation Costs for all employed in Manufacturing (34 Country Tables), updated on August 2013. U.S. Dept. of Labour, Bureau of Labour Statistics.

- Global Purchasing Power Parities and Real Expenditures. 2005 International Comparison Program. World Bank 2008.
- Purchasing Power parities – Measurement and Uses by Paul Schreyer and Francette Koechlin, OECD Statistical briefs, March 2002.

❖ **About Jus Semper:** The Living Wages North and South Initiative (TLWNSI) constitutes the sole program of The Jus Semper Global Alliance (TJSGA). TLWNSI is a long-term program developed to contribute to social justice in the world by achieving fair labour endowments for the workers of all the countries immersed in the global market system. It is applied through its program of Corporate Social Responsibility (CSR) and it focuses on gradual wage equalisation, for real democracy, the rule of law and living wages are the three fundamental elements in a community's quest for social justice.

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