

Does Culture Matter for Economic Development in Korea?

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1. Introduction

This paper explores the role of culture in Korea's economic development, with an eye to future prospects. Economic development is a complex phenomenon influenced by capital, labour, technology, and formal and informal institutions. Culture has important bearings on the economy not only through its direct effects on the behaviours of individual economic actors but also through its effects on the performance of formal institutions. Culture underpins formal institutions and is the underlying prerequisite for successful institutional performance. Post-crisis reforms of the Korean economy involved embedding new institutional arrangements, which are consistent with the advanced Western systems. Yet the required cultural underlay has not yet developed, leading to a limited success of the reforms (Kwon 2010a). Therefore, recognising the complementarity of the multiple factors for economic development, this paper explores the role of culture as one of the important development factors to better understand the nature of economic development in Korea and how recent cultural changes augur for future prospects of the national economy.

2. Literature review

Conventional economists have traditionally shied away from analysing culture in economic development because of its complexity, the difficulties in quantification, and the ambiguity of causality in the relationship between culture and economic development. Neoclassical economics simply assumes away culture as a matter of *ceteris paribus*. It was Max Weber (1950) who has considered at first different cultural influences on economic development. Weber argued that the Protestant work ethic was the basis of Western economic development and modernisation, and that the absence of this ethic in Asia was the reason for the region's lower level of economic development. Harrison (1985), drawing from his extensive study of economic development in South American countries over two decades, argues that differences in economic development among countries or ethnic groups arise primarily due to cultural differences.

Swift and unprecedented economic success in East Asia, including Korea, has inclined scholars to take a cultural approach to East Asian economic development, recognising that economically successful East Asian countries share Confucianism as a common cultural influence. A number of scholars (Tu 1988, Tai 1989, Pye 1990, Levy 1992, Throsby 2001, Adams et al 2007, Allen et al 2007, Power et al 2009, to name a few) argue that Confucian culture is the key to East Asian economic success. They point to specific characteristics of Confucian culture, particularly hierarchical collectivism, loyalty toward authority, emphasis on education, and secularism which in turn emphasises diligence, frugality and discipline. However, the Confucian model has a number of serious theoretical and methodological problems. It does not take into account cultural differences between national contexts. It simply assumes a causality from culture to economic development without demonstrating it empirically. The Confucian model lacks a firm empirical basis since it relates culture, which is by

nature a micro-psychological phenomenon and changes relatively slowly, to the ever-changing macro processes of economic development. To investigate the role of culture in Korean economic development, we must therefore adjust the Confucian model so that it is conceptually useful for dealing with Korea as a special case.

A number of Korean scholars (L.J. Cho 1994; S.S. Park 1995; Y.H. Kim 1994; Song 2003; K.C. Lee 1995; Koo 1995; Nam 1994) argued particularly during the 1980s and 1990s that national culture contributed significantly to economic development over the three decades from the early 1960s. Korean society has a relatively homogeneous culture with its traits which are similar to Confucian cultural values. Nam (1994), who served as one of the major architects and managers of Korean economic development during the 1960s and 1970s in the positions of Finance Minister, Deputy Prime Minister (in charge of the Economic Planning Board), and Prime Minister, has identified six principal factors that accounted for Korea's rapid economic development, and four of them are related to culture. As L.J. Cho (1994), S.S. Park (1995), Dodgson 2009; Oh and Kim (2002); and Yang and Lim (2007) argue, it should be pointed out, however, that the Korean Confucian tradition has some cultural traits detrimental to economic development, including a distinctive form of social stratification, denigration of manual labour, merchants and businessmen, a weak spirit of personal initiative and fatalism.

Serious reservations and qualifications have been put forward against the positive contribution of Confucianism to Korean economic development. If one accepts that Confucianism has made positive contributions to Korean economic development during the 1960s to the 1990s, important questions beg answers. The three with most significance, which has drawn little attention in the literature, are (1) why did cultural elements with positive influence for post-war economic development

fail to produce the same result much earlier in Korea's long history? (2) Why did the Korean economy succumb so quickly to the 1997 financial crisis, given that fundamental cultural values had not changed abruptly? (3) What effects will culture have on the future prospects of the Korean economy?

With regard to the first question, S.S. Park (1995) argues that although culture serves as a trigger for economic development, for the flame of Confucian culture to ignite economic development, certain political and economic preconditions must be met, including a free enterprise system, a competitive environment, international trade, appropriate institutions, and a stable and growing middle class.¹ However, Park does not adequately justify the need for the institutional prerequisites to enable culture to trigger economic development. L.J. Cho (1994) argues that an inappropriate focus on cultural and social development has fostered undesirable Confucian values, as mentioned above, and contends that these negative Confucian values lose their strengths as the economy develops and a middle class emerges. He leaves unaddressed the role of culture at the initial stage of economic development until the middle class emerges. The arguments by both S.S. Park (1995) and L.J. Cho (1994) are not convincing and are almost impossible to test empirically, as is the Confucian model of East Asian economic development.

The second question of the role of culture uses the financial crisis to challenge the validity of cultural factors for explaining economic development in East Asia. Pye (2000) and Perkins (2000) argue that culture works within context, and since the context changed from the early 1990s, the system that worked well with traditional cultural traits could no longer work well under the changed conditions. For instance,

¹ Institutional prerequisites for favourable cultural traits to work for the Confucian model of East Asian economic development are also pointed out by Levy (1992) and Kunio (2006).

economic and business systems based on personal relationships could not survive under the liberalisation of capital markets. Similarly, Lee and McNulty (2003) argue that the inflexibility of the labour market, including no layoffs, lifetime employment and the seniority system that reflected collectivist Confucian values, could not work well under the emerging globalisation and liberalisation era since the early 1990s.

These arguments not only lack empirical basis, but they also raise another troublesome question. If the pre-crisis system established under the traditional culture did not work under the new context, would the new post-crisis system shaped by the post-crisis economic reforms work under the existing cultural background? This leads to the third question: how will Korean culture work to shape future economic prospects? Existing models cannot properly address this question because they are methodologically unsound to relate directly culture to economic development. Therefore, to make a cultural model more operational and able to identify an easily conceivable causality, an operational intermediary should be introduced between culture and economic development. This is the concept of transaction cost.

Transaction costs, which have been assumed away by neoclassical economics, arise through the processes of negotiation between economic agents, valuation of goods and services to be exchanged, and enforcement of contracts (North 1990).² Not only do transaction costs affect the economy directly as part of economic costs, but they also work as an important determinant of how well markets function. Well-functioning markets lead to a high degree of specialisation and division of labour in an economy, which in turn leads to a higher level of productivity and economic progress. Therefore, appropriate institutions (both formal and informal) that would minimise transaction cost are required for economic development.

² North (1993) cites an empirical study which has found that 45 percent of US GNP was devoted to the transaction sector in 1970. In addition, there are a number of empirical estimates of transaction costs. For this, see Wang (2003).

Harrison (1985) argues that culture shapes the radius of trust and identification that people experience and the rigour of a society's system of ethics, which are equivalent to 'social capital' (Fukuyama 1995) and affect the level of transaction costs. A broader radius of trust and identification lowers transaction costs because in such a fiduciary relationship people generally believe that others will play by the rules. Strong inclination to follow laws and rules reduces enforcement costs of contracts. A broader radius of trust and identification and a higher ethics level improve cooperation and compromise among members of society, which are part of social capital. Harrison also argues that the rigour of the ethical system determines the sense of social justice or fairness which in turn increases social capital.³

Harrison (1985) contends that in dynamics the creative capacity of all citizens is the main source of economic development. Culture affects economic development through its impact on the creative capacity of all citizens. Harrison identifies cultural traits that foster creative capacity as 'future orientation, rationality and equality/authority'. The time orientation of a society is also highly important for economic development. If people's major focus is on the future, and the idea of progress is well established in their culture, the notion that planning, savings and investment will be rewarded by improved living conditions will dominate. Future orientation also implies the possibility of change, including introduction of new technology and the well-known concept of 'creative destruction' of Schumpeter (1951). People with future orientation are more likely to undertake education and

³ There are a number of studies on effects of social capital (or trust) on transaction costs (Putman 1995; Moore and de Bruin 2004; Dyer and Chu 2002). Lee and Jeong (2009) estimate the levels of social capital of 72 countries in 2008, the components of which include: social trust, observance of social rules, social network, society's unfairness and conflicts.

work hard at the expense of present enjoyment of leisure.⁴ It is readily conceivable that rationality and equality contribute to a nation's creative capacity. Rationality encourages the pursuit of scientific discovery. People's orientation toward equality is more conducive to economic development than an orientation toward hierarchy and authoritarianism, as equality encourages free competition, mobility and pursuit of knowledge. This new approach with the concepts of transaction cost as an intervening variable between culture and economic development and creative capacity is employed below in addressing the three questions identified above regarding the role of culture in the Korean economy.

3. New Assessment of Cultural Effects on the Korean Economy

3.1 Why Culture Did Not Produce Economic Growth Historically

Over the 500 years of the Yi dynasty (1392-1910), Korea adopted the Confucian canon as the national religion or social ethical principles, and its culture, society and governance systems became profoundly imbued with Confucianism.⁵ Under the prevailing culture over the Yi dynasty, transaction costs were high and the creative capacity of the Korean people was minimal. Society did not establish the basic formal institutions required for a market system, such as laws to protect private property rights. In terms of culture, the radius of trust was limited because of collectivism centred on the extended family, and the ethical system was loose as attested by the prevalence of corruption and political confrontation. The people's creative capacity could not develop under the dynastic rules. People remained unaware of scientific and economic progress around the world as the dynasty applied a strict isolation policy. People were highly influenced by Shamanism and fatalism that forestalled rational

⁴ Vecchi and Brennan(2009) argue that a nation's culture is associated with its innovation capacity, and their findings suggest that individualistic, low power distance and uncertainty avoidance cultures will display better innovation performance.

⁵ For detailed examinations of historical developments of Confucianism, culture, society, politics and economy in Korea, see Han (1969) and Grayson (2002).

thinking. Together with strong authoritarianism and collectivism, a distinctive form of social stratification prevailed in society, and manual labour, merchants and business people were widely denigrated. These circumstances crippled the spirit of entrepreneurship, independence, equality and creative capacity of people.

Korea's economic situation improved little under the oppressive Japanese colonial regime from 1910 to 1945. The few established institutions were re-g geared to benefit the colonial master. Harsh regulation forced obedience to laws, and the radius of trust narrowed even further. These conditions demolished not only the hopes of the Korean people but also their creative capacity and future aspirations. The education system did not introduce scientific and rational thinking to the general public. With liberation from Japanese colonial rule in 1945, Korea went through a chaotic period. No sooner had Korea become a sovereign independent country, than the nation was divided into two. The 1950-53 Korea War utterly demolished not only the existing industrial base but also the social fabric. Survival as individuals or as family units prevailed as the utmost goal in society for a long while.

3.2 Why Economic Development Began from the 1960s

From the 1960s, the Korean economy was set to develop rapidly. The military regime of General Park Chung Hee that took government in 1961 introduced a strict authoritarian order, thereby reducing transaction costs. The Park regime created a number of formal institutions to strengthen the market system including protection of private property rights, and implemented a nationwide development campaign that cultivated future orientation. Park's government introduced the first five-year economic plan in 1962 and consecutive five-year plans were devised and implemented until the beginning of the 1990s. These development plans led the Korean people to look towards the future, which inspired higher national savings and

investment rates, the will to work harder, and a high pursuit of education. Rapid industrialisation and rising employment opportunities in urban areas weakened social stratification and the long-held disdain for manual labour and commercial activities, thereby creating conditions that promoted aspirations to social equality.

3.3 Why, then, the 1997 Financial Crisis?

Park Chung Hee's was just the first of a series of authoritarian regimes that tightly controlled and intervened extensively in the economy across the following three decades until the early 1990s. While the system had produced spectacular economic growth it had also bred institutional dysfunction. Private property rights, particularly of chaebols, were poorly protected under some of the military regimes. The state had confiscated assets of some of the chaebols in the early days of the Park regime and the Chun Doo Hwan regime (1981–1988). The authoritarian regimes held the banking sector under tight control, enabling the government to control credit lines to private companies. Private companies were forced to collaborate with government to protect their private property and secure credit lines from banks, leading to corruption and cronyism. Generally, the more corrupt the society, the narrower the radius of trust and identification within it, which raises transaction costs for society.

Extensive state intervention in the banking and business sectors and government protection thereof fostered the deluding perception that banks and chaebols were economically invincible. This perception engendered moral hazard for banks and chaebols, which encouraged them to underestimate transaction costs as well as business risk and expand their enterprises with debt capital. Cronyism may reduce transaction costs in a situation of a small number of actors involved as under the earlier stage of economic development in Korea. However, cronyism could not be sustained when the number of competitors reached a certain threshold and

competition became more intense with increasing liberalisation and globalisation from the beginning of the 1990s. Together with reduced state protection as part of economic liberalisation, the extant post-war business system based on moral hazard and underestimated transaction costs could not survive.

Another factor inspired by market liberalisation was the need for more domestically generated creative thinking. The creative capacity of Korean people had not been so critical for Korean economic development in so far as the country was catching up with advanced countries. Korean enterprises were able to purchase technology from further advanced countries. However, as Korea became a serious contender in many areas of international business, the Korean economy could not survive with technologies imported from competitor nations. International market competition has forced Korea to develop its own technology and to enhance its international competitiveness more than ever. This shift was reflected in low productivity growth and low international competitiveness from the early 1990s (Kwon 2010a). To maintain its rapid economic development, Korea needs a new level of the nation's creative capacity and its requisite cultural values of future orientation, rational thinking and equality. These required cultural values could not develop quickly enough due to cultural inertia.

4. Cultural Trends and the Future Korean Economy

4.1 Recent Cultural Changes in Korean Society and Its Economic Prospects

In the current liberalised and globalised economic environment, minimising transaction costs and maximising creative capacity of the Korean people are critically important for Korea to hold its economic performance relative to other nations. While cultural change is usually slow, the government's reform program in response to the 1997 crisis introduced a raft of institutional and legal reforms that have induced

relatively swift cultural change in Korea. The resulting changes in cultural values have become sources of decline in trust or increases in social discontent. In 1998 the labour law was changed to allow managers to lay-off workers for management reasons. This opened the way for private companies to dismiss a large number of staff as part of business restructuring, diminishing the concept of lifetime employment. Companies have also introduced performance-based compensation and promotion to replace the seniority system. These changes in human resource management create uncertainty for workers and inevitably reduce the level of trust between employers and employees. This reduction of trust in employment relations lowers loyalty toward companies and aggravates labour relations. All this, reflected in high labour disputes and Korea's poor ranking internationally with labour relations (Tables 1 and 2), have raised transaction costs.

Second, trust has declined from the rising disparity between regular and non-regular workers. Since the 1997 crisis, many employers have changed employment from regular to non-regular workers to reduce production costs and to improve employment flexibility. As shown in Table 1, the proportion of non-regular workers increased from 27.4 percent in 2002 to 34.9 percent in 2009. Non-regular workers are treated substantially worse than regular workers in terms of remuneration and social and statutory benefits. The proportion of non-regular workers' monthly income to regular workers' income decreased from 67.1 percent in 2002 to 54.6 percent in 2009 (KLI 2010). There are four social safety net programmes (employment insurance, industrial accident compensation insurance, national health insurance and national pension) for which both employees and employers have to contribute. Many non-regular workers are not covered by these social programs (KLI 2010), nor are they eligible for statutory benefits by their companies such as overtime pay, paid annual

leave and maternity leave. In response to perceived injustice toward employees, the appeal of such approaches as cooperation, compromise, stability, and continuity has declined in Korean society, while confrontational attitudes have strengthened.

Third, as Harrison (1985) and Josten (2004) argue, increasing inequality in income distribution reduces social capital and thereby increasing transaction costs. Inequality in income distribution has been rising. As shown in Table 1, income distribution measured by the Gini coefficient has somewhat worsened in the recent past. The ratio of income of the richest 10 percent of urban employees to that of the poorest 10 percent (Q10/Q1) increased from 7.48 in 2000 to 8.29 in 2009. Perceptions of injustice in society are also on the rise due not only to rising inequality in income but also in wealth distribution. J.W. Lee (2003) points out that disparity in the distribution of wealth is much worse than the inequality of income distribution, because of the heavy concentration of land ownership and the high price of land.

Fourth, it appears that the rising income polarisation has been utilised for political purposes and as a result the political culture has developed in such a way that suspicion of, and hostility toward, political opponents continues to escalate. Consequently, political confrontation has become the rule of the game, while the concepts of cooperation and compromise have disappeared. One may expect the prevailing wrangling within the political sphere to adversely affect prospects for cooperation and compromise and hence the radius of trust within Korean society at large.

Fifth, the social participation rate in community activities, which could enhance social capital, is extremely low. In 1999, only 23.1 percent of individuals had affiliation with social organisations. The majority of those participants are members of social meetings, religious organisations, and hobby, sports and leisure

organisations; only 13.6 percent of them are participating in civil society organisations, community interest groups and political groups. This shows that Korea's group society is based on family, education, regions and religions. The social participation rate improved to 38.8 percent in 2006, yet only 15.3 percent of those participants are involved in civil society, community interest groups and political groups (KOSTAT 2011).

Sixth, Fukuyama (1995) has argued that the rise of crime and litigation indicates the decline of social trust. In Korea today, the rule of law appears to be losing its regulatory power, as does the prerequisite underlay of trust and ethics that enables, sustains and reinforces rule of law. As shown in Table 1, the number of penal code criminal cases increased from 523000 in 2000 to 993000 in 2009, or a 7.4 percent annual increment over the period. In the recent past, large-scale political corruption cases have been exposed, and illegal activities by corporations, unions and interest groups have been prevalent, vitiating the ethical system and its regulatory capacity over Korean society.⁶

Finally, nationalism is still high in Korea, although like other emotional responses such as trust, it too is weakening. Relatively strong nationalism by comparison with other national examples helps to explain why many observers from overseas still regard Korean people as xenophobic (Dong-A Daily 2008, Dodgson 2009). Indeed, the xenophobic attitude of many Koreans in general reduces the radius of identification and raises transaction costs in international commercial dealings, while globalisation transforms national economies worldwide.

The future orientation that fosters creative capacity within society also appears to be declining in recent years. Uncertainty perceived by workers after 1997, and

⁶ Cha (2007) estimates that if the level of law observance in Korea over the last 10 years were the OECE average level, Korea's annual economic growth rate could have been at least one percent point higher.

uncertainty and instability generated by inconsistent government policy measures in the recent past have also hindered the future orientation of citizens (Kwon 2010b). As imbedded in hierarchical collectivism with social stratification based on education and ranks in organisation, Korean society is lacking equality, as compared to advanced countries. In this respect, Oh and Kim (2002) and Yang and Lim (2007) and Dodgson (2009) argue that hierarchical collectivism in Korea would impede productivity, innovation and entrepreneurship.⁷ Declining savings and investment rates may reflect decline in future orientation. As shown in Table 1, the savings rate decreased from 33.0 percent in 2000 to 30.0 percent in 2009, while the investment rate from 30.7 percent to 25.8 percent during the same period. These decreases in savings and investment rates will adversely affect economic growth potential.

Table 1 Korea's Social and Economic Indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP growth (%)	8.8	4.0	7.2	2.8	4.6	4.0	5.2	5.1	2.0	0.2
Saving rate (%)	33.0	31.1	30.5	31.9	34.0	32.1	30.8	30.8	30.5	30.0
Investment rate (%)	30.7	29.3	29.3	30.0	29.9	29.8	29.7	29.5	31.0	25.8
Labor disputes	250	235	322	320	462	287	138	115	108	121
% of non-regular workers	n.a	n.a.	27.4	32.6	37.0	36.6	35.5	35.9	33.8	34.9
Gini coefficient	0.296	0.303	0.298	0.298	0.301	0301	0.299	0.304	0.303	0.301
Q10/Q1(urban employees)	7.48	7.63	7.24	8.24	8.48	8.37	8.01	8.20	8.15	8.29
Penal code criminal cases(000)	523	554	797	857	827	826	828	845	898	993

Sources: KOSTAT (2010), KLI (2010), KOSTAT (2011), KIHASA (2011).

4.2 Comparative Analysis of Recent Cultural Trends in Korea

So far the wide-ranging cultural changes within Korean society have been analysed in terms of their possible effects on the future economy through their influences on future transaction costs and the nation's creative capacity. This analysis should be

⁷ Allick and Realo (2004) find out of their empirical studies of 37 countries that those societies characterized by the highest levels of individualism had the highest levels of interpersonal trust.

augmented, particularly to comprehend Korean cultural effects on its international competitiveness, by an analysis of a variety of Korean cultural facets relevant to economic development, compared to those advanced countries against which Korea has to compete. To this end, recent trends of relevant cultural facets within Korea are examined by comparing pertinent social indicators, which would reflect those cultural facets, to those of other countries. Table 2 shows Korea's global rankings across various social indicators between 2000 and 2010 developed by a number of well-known international organisations including the International Institute for Management Development (IMD), the World Economic Forum (WEF), Transparency International (TI).

Obviously trust has declined in the Korean labour market markedly more than other countries. According to the IMD and WEF, Korea's labour relations were consistently among the worst over time (Table 2). Over the period 2000-2010, both the IMD and WEF show that Korea belonged to the worst 95 percentile. As a result, Korea was one of the countries that had most industrial disputes, as indicated by Korea's rank of 39.9th on average out of 52 countries surveyed over the 2000-2008 period.

Korean society's view of individual firms' behaviours is quite low, indicating a relatively low level of trust in companies, compared to advanced countries. According to the IMD, Korea's rankings for the social responsibility of business leaders held fairly steady between 2000 and 2007, with a striking improvement in 2008 and being worsened in the following two years, thereby bringing up an average ranking of 26.8th out of 53 countries over the period 2000-2010. Over the same period, corporate ethical practices demonstrated a similar pattern, remaining at one of the worst until 2007 and improving somewhat thereafter, ranking on average 34.4th. For

ethical behaviours of firms by the WEF, Korea's rank was 38th in 2002, fluctuated over time and significantly worsened in the two years, resulting in an average rank of 40.2nd out of 109 countries. The low level of trust in companies together with poor labour relations would be reflected in a relatively low level of work ethics. Unlike the renowned hallmark diligence of Korean workers, the IMD ranked Korea 32.4th out of 53 countries on its worker motivation as an annual average over the 2000-2010 period.

The level of trust, rigor of ethics and law observance level are remarkably lower in Korea than other advanced countries. Korea's ranking on the Corruption Perceptions Index (CPI) developed by TI remained more or less steady over the period between 2000 and 2010 with an average rank of 42.7th out of 180 countries. This indicates a high prevailing perception that the corruption level in Korea is relatively quite high, compared to advanced countries. The WEF survey on corruption supports the TI results with Korea's ranking of 37.9th out of 109 countries over the period 2000-2010 on favouritism in official decisions. According to the IMD and WEF, the perception that social justice is not fairly administered prevails quite highly. Over the period 2000-2010, the IMD ranked Korea on its social justice index 43.3rd on average out of 53 countries. The WEF ranked Korea on average 44.5th out of 109 countries on its judicial independence index (Table 2).

Table 2 Comparative Stances of Korea's Social Indicators

Notes on some of the terms:

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Avge (2000-10)
1) Labour market												
Labour relations (IMD)	44	46	47	30*	60	60	61	55	55	56	56	54.0 (53)#
Industrial dispute (IMD)	38	25*	44	45	43	37	38	36	38	n.a.	n.a.	39.9
Labour relations (WEF)	56	72	55	93	103	81	114	55	95	131	138* *	90.3 (109)#
Worker motivation (IMD)	33	32	19	16*	42	37	32	33	30	38	28	32.4
2) Society's view of firms												
Social responsibility (IMD)	39	40	24	18*	30	30	34	41	2	15	13	26.8
Ethical practice (IMD)	38	39	29	26*	38	36	40	41	29	26	28	34.4
Ethical behaviour (WEF)	n.a.	n.a.	38	33	61	35	38	25	27	48	57	40.2
3) Observance of ethics and laws												
CPI (TI)	48	42	40	50	47	40	42	43	40	39	39	42.7 (180)
Justice (IMD)	32	32	35	18*	41	35	42	30	31	32	33	34.3
Favouritism in official Decisions (WEF)	27	35	30	18	49	26	46	15	22	65	84	37.9
Judicial independence (WEF)	44	47	41	49	48	45	51	35	45	58	60	47.5
4) Social attitudes to globalisation												
Attitudes to globalisation (IMD)	n.a.	20	16	3*	14	7	13	32	13	15	13	15.9
National culture (IMD)	47	48	44	30*	49	53	55	55	55	56	52	51.4

Social responsibility (IMD): the level of social responsibility of business leaders.

Ethical practice (IMD): ethical practices are implemented by companies.

CPI (TI): Corruption perceptions index by Transparency International

Justice (IMD): justice is fairly administered.

Favouritism in official decision (WEF): favouritism given to well-connected firms and individuals when deciding on policies and contracts.

National culture (IMD): the national culture is open to foreign ideas.

* In publication year 2003, (except for industrial disputes for which 2001), IMD subcategories of data were divided into countries/regions with populations above and below 20 million. Korea's rankings are out of 30 countries studied with populations over 20 million. The 2000-10 IMD average excludes values for 2003.

**For WEF, the annual value for a certain year is an average of that year and the immediately following year. For example, the 2010 value is a 2010-2011 average.

#The total number of countries studied in 2010: IMD: 58, WEF: 139, and TI: 178.

These numbers have increased over time.

Sources: IMD (2000-2010); WEF (2000-2011), TI (2000-2010).

Finally, as compared to other countries, Korean society has relatively opened toward globalisation, yet people's mindsets have remained quite closed to it. According to the IMD survey, Korea's rankings for social attitudes to globalisation between 2000 and 2010 fluctuated, ranging 7th to 13th, with an average rank of 15.9th. By contrast, Korea ranked poorly in terms of national culture being closed to foreign ideas. Korea was worst ranked in 2000, 2003, 2007 and 2008, with an average rank of 51.4th out of 53 countries over the 2000-2010 period. This vindicates the arguments that nationalism and xenophobia as its corollary are still prevalent in Korea.

The above comparative analysis of social indicators reinforces the argument that the recent cultural trends within Korea society would be unfavourable for future economic development by raising transaction costs. The relative rankings with the above social indicators provide comparative assessment of the nation's business environments and are critically important in informing foreign investors and businesses when considering opportunities. Therefore, for the nation's strategic goal of achieving the status of advanced countries, Korean mindsets, which are the underpinning of formal institutions and economic development, have to adjust towards those of advanced countries and the advent of globalisation.

5. Conclusion

A wide ranging literature has recently been developed concerning the relationship between Confucian culture and East Asian economic development. However, the Confucian model has a number of serious theoretical and methodological problems. By refining the shortcomings of the Confucian model, this paper has developed a new model to explore the relationship between Korea's Confucian culture and its economic development by drawing on the model proposed by Harrison (1985), among others. This model introduces an operational intermediary between culture and

economic development to make the model more operational and the causality readily conceivable. Under this model, culture affects economic development through its impacts on transaction costs in the static case and through its impacts on creative capacity in the dynamic case.

Using this model, this paper has found that a variety of cultural changes in the recent past have decreased the level of trust and thus social capital in Korean society, thereby increasing transaction costs. Changes in political and economic institutions in the wake of the 1997 crisis have promoted individualism and reduced the sense of community and the radius of trust. Trust between employers and employees has decreased, thereby deteriorating labour relations and raising labour disputes. The strong work ethic that characterised Korean workers has weakened, alongside decline in workers' diligence, loyalty and dedication to their employer companies. The perception of injustice in society has enhanced because of increasing inequality in income and wealth distribution and the widening gap between regular and non-regular workers in their working conditions. The rising social injustice has fed into national political life, making for a more confrontational politics. Rule of law has lost regulatory strength, partly as a consequence of large-scale political scandals, corruption in *chaebols*, and illegal activities of unions. These developments have contributed to a declining sense of community and trust, a weaker appreciation of cooperation and compromise, and stronger inclination towards confrontation. These outcomes all serve to raise transaction costs and socio-economic instability, which will adversely affect the Korean economy in the future.

Other findings are also consistent with this inauspicious economic trajectory. The future orientation that fosters citizens' creative capacity has faded, as suggested by decreasing savings and investment rates. A social view tending to disparage

entrepreneurs and business has evolved, discouraging entrepreneurship and creativity. Uncertainty perceived by workers after 1997, and uncertainty and instability generated by inconsistent government policy measures in the recent past have also hindered the future orientation of citizens. Korean society is lacking the sense of equality due to the enduring hierarchical collectivism with social stratification.

This paper has also analysed a variety of Korean cultural facets relevant to economic development, compared to those of other countries by means of social indicators developed by a number of well-known international organisations. Trust in the Korean labour market has declined markedly more than in other countries. Korean society's trust in private business is relatively low, which, together with low trust in labour relations, has weakened worker motivation more than other countries. Again as compared to advanced countries, the level of trust, the rigor of ethics, and law observance in Korea are all relatively low, as reflected in its higher corruption level. Further, Koreans are relatively intransigent to foreign cultures and ideas. All this would adversely affect Korea's international competitiveness and make it difficult for Korea to take full advantage of globalisation.

In conclusion, the complex and wide-ranging changes in Korean culture in the recent past are serving to raise transaction costs and curtail the Korean people's creative capacity. The effects of these cultural changes on the Korean economy are likely to be negative in the future. This is further reinforced when relevant facets of Korean culture are compared to those of advanced countries. Even if all else remains the same, the prospects of the Korean economy will be weakened by the influence of culture. To improve Korea's economic prospects in the emerging globalisation era, careful attention needs to be paid to the cultural changes now under way in response to recent policy and institutional changes. Government, business and society as a

whole will need to work together to redirect what appear to be deleterious cultural changes to a direction conducive to economic development.

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