Introduction

I.1 OBJECTIVE OF THE BOOK

This book investigates the dynamics of the relationship between social trust and economic development as well as the channels through which they impact each other over time. The logical loop of the relationship runs both ways, as the society of a country evolves in tandem with its economic development. On the one hand, social trust affects economic development of a country by influencing confidence of and cooperation among economic entities and the costs related to undertaking economic transactions among them (North 1990; Fukuyama 1995; Putnam 2000; Paxton 2002). On the other hand, economic development of a country raises its citizens’ living standards, educational attainment, and social status. This leads to changes in people’s perceptions of others and changes trust among them (Delhey and Newton 2005). Economic development of a country also changes its society, including social structures, institutions, and organizations, thereby affecting people’s relationship in society and their mutual trust.

Effects of social trust on economic development have been explored extensively, while little attention appears to have been paid to the consequences of economic development on social trust. As noted above, economic development leads to changes in social trust, which in turn affect economic performance. Hence, economic development policy should explicitly take into account its effects on social trust as well as the reciprocal role of social trust on economic development. The World Bank (2015) points out that paying attention to the effects of economic policies and resulting institutional changes on social trust improves the trajectories of economic growth.

Social trust is not only a means of economic development, but also an end in itself. Many philosophers and humanitarian leaders, including Aristotle 2400 years ago and the Dalia Lama of the present time, have asserted that the ultimate purpose of human existence is happiness, and have stated in the same breath that human beings are by nature social creatures. Society, as a group of people involved in interpersonal relationships, is more than the sum of its individual members because society has its own
structure, institutions, and organizations. With these components, society runs as a system. Depending upon how well the social system operates, society can enable its members to benefit in ways that would not be possible on an individual basis. Therefore, the ultimate purpose of happiness for human beings cannot be pursued properly without an adequate understanding of the operation of the social system. At the centre of the cluster of operational determinants of the social system is social trust (Newton 2013: 1). For the present study, social trust is defined in terms of the interrelationships between and among individuals and other components of society. Social trust in this sense includes not only interpersonal trust, but also institutional trust, including social trust in government, business, and labour. As Newton (2013) argued, social trust contributes to people’s happiness and health, by enhancing trustful and harmonious interrelationships as well as enhancing operations of the social system. Hence, a society with high social trust is an indicator of high social well-being, reinforcing social trust being an end in itself.

The dynamics of the relationship between social trust and economic development will be investigated and illustrated with the case of South Korea (hereafter Korea), which is a quintessential case for the task. By contrasting it to existing theoretical and empirical studies in the literature, the Korean case will explore specific issues arising from mutual relationships between social trust and economic development. Korea’s economic success is well documented. It stands as proof that a nation can leap from one of the poorest in the world to one of the richest in just one generation. Over the period from 1963 to 1996, the economy recorded an annual growth rate of 8.9 percent, per capita GDP increased more than a hundredfold from $100 to $13,000 ($ being USD in this book), and GDP rose from $2.3 billion to $598 billion (KOSIS 2018a). In 1996, Korea became the 29th member of the OECD. In terms of the human development index by the UNDP (United Nations Development Programme), Korea recorded an annual growth of 1.03 percent between 1975 and 2000, compared to an annual growth of 0.78 percent for the world, raising Korea’s rank from 45th in 1980 to 27th in 2000 (UNDP 2014).1

The financial crisis in 1997, which engulfed much of East Asia, temporarily crippled the Korean economy. In response to both the crisis and the transition under way in its geopolitical and global economic environments, the Korean government vigorously undertook profound neoliberal reforms of the nation’s economic institutions. These sweeping institutional reforms have, in turn, been the main drivers of the transition of the Korean economy from being heavily controlled and state-led to being a liberalized, knowledge-based economy anchored in market principles. As a result, unlike other crisis-afflicted economies in the recent past, the Korean econ-
omy recovered swiftly in 1999 after a serious setback during just one year of 1998, and became the world’s 11th largest economy in 2003. Since the end of WWII, Korea has been the only country to go from being a foreign aid receiver to being a foreign aid provider. Korea, therefore, presents a fascinating case for enquiry into the evolution of a national economy with its distinctive experience of an apparently miraculous success over three decades since the early 1960s, the tumultuous financial crisis in 1997, the swift recovery through sweeping institutional reforms, and a remarkable economic transition into the 21st century.

From the dawn of the 21st century, however, clear signals have emerged of a sluggish performance within Korea’s economy, indicating the economy having entered a low potential growth phase. The economy recorded 4.5 percent of annual growth for the first decade of the 21st century, and has hovered around just below 3.0 percent over the period 2011–17 (KOSIS 2018a). The Bank of Korea (2017) estimated that the potential annual growth rate declined gradually from 5.0 percent over the period 2001–05 to 3.4 percent over the period 2011–15, and further down to 2.8 percent between 2016 and 2020. This has raised concerns in all walks of life in Korea about the consequences of a stagnant national economy and the dimming prospect of crossing the threshold to advanced economy status. In order to reinvigorate and fortify the economy, consecutive governments have implemented various types of economic policies over the last decade, but they have been of little avail.

Korean society has drawn little attention over the last half-century behind the façade of miraculous economic development. In effect, Korean society has become increasingly dysfunctional in recent years due to rising social irregularities, incongruities, and conflict. The process of economic development over the past several decades through close government–business collaboration has bred corruption and cronyism, and engendered moral hazards for banks and big businesses (chaebols). Corruption and cronyism are still rampant, as evidenced by frequent media reports. This has resulted in the decline of citizens’ observance of laws and social norms, and raised social discontent and distrust, particularly, in organizations, including the government, chaebols, and labour unions. The institutional and legal reforms introduced in response to the 1997 crisis have led to swift changes in the labour market. The new labour laws have allowed managers to lay off workers for the first time in history, and banks and businesses have dismissed a large number of staff as a post-crisis survival strategy. This has diminished the concept of lifetime employment and the seniority system in human resource management, as well as trust in labour-management relations. Since the 1997 crisis, many employers have changed employment from regular to non-regular workers to reduce
production costs and improve labour flexibility. The gap between the two groups of workers in their compensation and other employment conditions has widened over time in favour of regular workers. Such injustice in employment practices has engendered social conflict and confrontational attitudes in society.

All these developments in Korean society are reflected in various facets of the configuration of dysfunctional society. Koreans are unhappy in comparison to their living standards and to other countries. According to the UN World Happiness Reports by Helliwell et al. (2018), Korea’s rank of happiness has worsened from 41st out of 156 countries in the period 2010–12 to 57th in 2018. Among the 34 OECD countries, Korea ranked 29th for happiness in 2018. The six key determinants of the national levels of happiness as presented by Helliwell et al. (2018) are: GDP per capita, social support, healthy life expectancy, freedom to make life choices, generosity, and perceptions of corruption. It should be noted that national happiness by Helliwell et al. (2018) is determined not only by economic variables (i.e., GDP per capita), but, perhaps more importantly, by social issues. On the ‘life satisfaction’ indicator of the OECD Better Life Index (OECD 2017a), Korea ranked 26th in 2017 out of the 34 OECD countries. Another side of the country’s unhappiness may be reflected in its suicide rate. According to the OECD (2016a), Korea has the highest suicide rate among the OECD countries with a rate of 29 per 100 000 persons in 2014, as compared to the OECD average rate of 12.

Another facet of the dysfunctional society may be reflected in the lack of social trust. According to the World Values Survey (2015) for the period 1981–2008, social trust is low in Korea, as shown by Korea’s rank of 31st on interpersonal trust with a score of 31.7, compared to 68.1 for Norway which ranked first (Algan and Cahuc 2013). As discussed further in Chapters 7 to 9, social trust in institutions, such as the government, business, and labour unions, is markedly low in Korea, compared to other countries. For instance, the OECD (2017b) stated that Korea ranked third from the bottom of the OECD countries on confidence in national government.

Finally, the Park Geun-hye government (2013–17) appeared to have recognized and admitted the importance of social issues for economic development, as shown in its ‘three-year plan for economic innovation’ announced in February 2014. This plan was anchored on three strategic pillars: normalization of ‘irregular’ practices in all areas of society, a pursuit of a creative economy, and a boost in domestic demand. In particular, the first pillar acknowledged the limitation of conventional economic policy tools for economic invigoration and sought to strengthen the social fundamentals underpinning economic development. Prevalent irregulari-
ties in Korean society, with which the Park Geun-hye government was concerned, culminated in the Sewol ferry tragedy in April 2014. Following the tragedy, the Korean economy had a serious economic setback indicated by a significant decline in the overall economic cyclical index for several months. This is a case in point that demonstrates the importance of social issues, including social trust, for economic development.

It has been difficult to identify any discernible changes in Korean society even after the Sewol ferry tragedy (The Chosun Media 2014). It appears that the pillar related to normalization of social anomalies has been put on 'the back burner'. Economic policy instruments discussed recently in the public domain are all conventional ones. Ironically, Park Geun-hye, the very president who started her administration under the banner of the prevention of corruption and social irregularities, was impeached in 2016 over corruption and cronyism scandals and became the first democratically elected Korean president to be forced from office. She was then sentenced to 24 years in prison. After the impeachment of Park Geun-hye, Moon Jae-in was elected and inaugurated in 2017 as the 12th president of Korea. The Moon Jae-in government embarked on a vision of creating a 'people's country, a just Korea'. In order to achieve this vision, a number of main policy tasks were announced for the next five years, including creating a government of the people, creating jobs, pursuing co-prosperity, improving the social safety net, promoting balanced growth across regions, eliminating irregularities and corruption, and pursuing peace and prosperity in the Korean peninsula (Korea.Net 2017). Although it is too early to assess the performance of the Moon Jae-in government, the main policy focus is on traditional economic objectives of equity and job creation by means of conventional policy instruments, and attention to social issues and tasks appears to be lacking.

In this historical conjunction with the political turmoil – caused by incessant corruption scandals, together with a long spell of slower growth and persistent social malaise and irregularities – a number of critical questions have arisen. What explains the economic slowdown and unpromising prospects of the Korean economy for the decades ahead? Why have conventional economic policies failed in invigorating the sluggish economy? Why does Korean society remain unchanged even after such a social calamity as the Sewol ferry tragedy? Why do social irregularities and abnormalities, which have become so disgracefully naked through the Sewol ferry incident and dethroning of a president, still remain prevalent? In order to revitalize the economy and achieve the popular Korean aspiration to live in an advanced country, what should be done, by whom, and how? This book is an attempt to address these critical questions through analysing the dynamics of the relationship between social trust and economic development in Korea.
The national economic and social drama unfolding since the 1997 crisis begs critical reinterpretation. The earlier literature on the Korean economy and society should be re-evaluated, since it reports only on studies undertaken before the economic sluggishness beginning at the dawn of the 21st century became evident. The sudden and unexpected nature of the economic downturn that followed Korea’s institutional and structural reforms and concomitant economic transition in response to the financial crisis means that knowledge on the Korean economy and society is still in the early stages of development. A few analyses such as Jang (2014), OECD (2013), and Kwon (2010) have attempted to explore some aspects of this rich analytical terrain. However, no study has paid adequate attention to the tandem developments of the Korean economy and society or how they have affected each other. Jang (2014) did not discuss the relationship between Korean economic and social developments. Although OECD (2013) discussed the challenging issue of strengthening social cohesion, its analysis was limited to the erosion of social cohesion arising from economic and social inequalities such as inequitable income distribution, labour market dualism, and the lack of social welfare programs. In addition, OECD (2013) did not examine possible impacts on the economy arising from the erosion of social cohesion. As far as social issues are concerned, OECD (2016b) did not go beyond the analysis in OECD (2013) and did not pay attention to the relationship between social trust and economic development. Kwon (2010: 5) focused on evaluation of Korea’s economic institutional and structural reforms against its economic performance and made comparisons with the counterparts of advanced countries, yet did not pay much attention to social consequences of those reforms.

One important aspect, to which the existing literature has paid little attention, is the dynamics of the relationship between social trust and economic development in Korea in the globalization and information era. Without explicitly taking into account the interdependence between them, neither economic development nor social progress is sustainable. For sustainable economic and social progress, detailed information is needed on the broad picture of their relationship. The comprehensive nature of the topics addressed in this book is a direct response to these information needs.

I.2 METHODOLOGY

This book uses an institutional approach in analysing and addressing the issues arising from the dynamic relationship between social trust and economic development in Korea. The institutional approach taken up in this
study is an integrated and conceptually comprehensive tool for economic analysis (Olson and Kahkonen 2000). It is also an openly interdisciplinary approach, recognizing insights from political science, sociology, and anthropology as well as economics. Hodgson (1998) pointed out that the institutional approach enables one to delineate the transition of social, political, and economic institutions as well as focus on the impacts of institutional transformation on the economy and society of a country.

This book uses the concept of institutions proposed by new institutional economists including North (1990) and Williamson (2000), which sees institutions as the ‘rules of the game’ in society. Institutions so defined include informal institutions (unwritten rules or culture) and formal institutions (written rules including constitutions and laws). Institutions play critical roles within an economy, as they profoundly influence the behavioural patterns of its actors: individuals, the business sector, and the government. North (1990: 110) argued that economic systems are specific to particular constellations of institutional frameworks that vary over time and across countries. The Korean economy maintains its sui generis characteristics largely because of the nation’s idiosyncratic institutional framework. As the world has witnessed through the collapse of socialism, institutions help determine economic performance by governing the level of property rights protection and characteristics of the market. In this respect, North (1990: 7) and Olson (2000) argued that differences in per capita income across countries are mainly due to differences in the quality of institutions. They further added that the persistence of relative inefficiency in institutions is a source of the long-run stagnation of an economy. This book therefore examines the Korean institutional context through the multiple lenses of history, society, culture, and politics, and explores the primary causes and possible remedies of the current sluggish state of the Korean economy by investigating the dysfunctional aspects of its institutions.

According to new institutional economics, the linkage between institutions and economic development is made by the transaction cost, which is its core concept (Nee 2005). Transaction costs arise through the processes of negotiation between economic agents, valuation of the goods and services to be exchanged, and enforcement of transactions in a market economy. As pointed out by North (1993), transaction costs make up a significant portion of the costs of economic operations. New institutional economics argues that the level of transaction costs of a country is determined by its institutions. Hence, alternative institutional arrangements make the differences in regard to economic development among countries.

Institutions of a country affect transaction costs through social trust of the country. As discussed throughout this book, a nation’s institutions (both formal and informal) are the main determinants of its social trust,
Social trust and economic development

including trust among its people and trust in other components of society such as government, business, and labour. Social trust, in turn, affects transaction costs, thereby influencing the economic performance of a country (Fukuyama 1995; Putnam 2000; Paxton 2002).

Understanding the importance of both institutions and social trust for determining the overall performance and prospects of the Korean economy, the present study focuses on social trust for practical and operational reasons. Institutions are too broad in concept and difficult to measure, as compared to social trust which has been measured across countries in a consistent manner over time by a number of worldwide organizations.

Although the logical loop of the influences of social trust on economic operations is not ignored, this book places emphasis on the effects of economic development on social trust, which, in turn, affects economic operations. Over the course of its economic development, bipolarization in income distribution and labour markets has been aggravated, and corruption and cronyism have prevailed. Korean society has been increasingly dysfunctional, particularly in recent years. This book investigates how each of these socially dysfunctional aspects has developed and affected citizens’ observance of laws, their perception of social justice and cohesion as well as social trust.

This book does not attempt to add another empirical study. However, in order to provide empirically grounded discussions, expositions of socio-economic issues in Korea are illustrated as much as possible with relevant empirical observations and measurements. The data used in this book are drawn primarily from secondary statistical sources, media reports, and published academic studies. For example, instead of attempting to measure social trust in Korea, this book takes advantage of a number of social trust indicators measured by Korean as well as worldwide organizations. From these social trust indicators, changes in the level of social trust over time in Korea and its relative level, compared to other countries, are demonstrated. In addition, empirical studies on the effects of social trust on economic development are readily available in literature (Putnam 2000: 205; Delhey and Newton 2005). The Korean case will be compared and contrasted to these empirical results and help draw implications for Korea.

An extensive survey of English- and Korean-language literature has inspired a set of six propositions concerning the dynamics of the relationship between social trust and economic development in Korea.

(i) Over one generation, from the early 1960s to the mid-1990s, the Korean economy achieved miraculous progress. As the 20th century came to a close, however, the external context of the Korean
Introduction

economy changed remarkably, including the emergence of the globalization and information era, liberalization of the international financial market, and changes in international geopolitics. By failing to adjust its economic structure and institutions in line with these global trends, the Korean economy experienced a devastating financial crisis in 1997. Profound institutional reforms responding to these external changes and the domestic circumstances that occurred due to the 1997 crisis have become the main forces for determining the transition path of the Korean economy from a state-led industrial economy to a market-oriented, liberalized, and knowledge-based economy.

(ii) The industrialization and urbanization that occurred during the period of Korea’s rapid economic development changed Korean society remarkably from a traditional, agrarian group society to an urban- and industry-based, modern society. The shock of the financial crisis and institutional reforms, alongside the process of globalization, has generated further changes in Korean society. Social structure and institutions, including culture, have changed consistent with the neoliberal economic paradigm. Social inequality has been exacerbated in terms of income, opportunities, and power-relations. Patriotism and loyalty toward authority have faded, and individualism has risen at the expense of collectivism. All of these changes have increased occurrences of social conflict within the country.

(iii) Remarkable changes in Korean society and culture as well as its economic system have transformed its society’s view on equity and the need for equity. As such, an improved welfare system has become more highly valued and actively sought.

(iv) Fully fledged, pluralistic, political democratization has been developed along with and through institutional reforms in Korea. This has increased the range and extent of activity by political stakeholders in the country, making the political process more complex. However, Korean politics, which is highly influenced by culture, has not been able to adjust adequately to the emerging political environment. All of these changes in the country’s political environments have deteriorated citizens’ perceptions of politics and government operations.

(v) The liberalization and internationalization of the Korean economy caused by institutional reforms have led companies to face heightened global competition. In order to survive, companies have streamlined and downsized their operations, creating a dual structure of employment (regular and non-regular). They have also undertaken overseas direct investments and outsourcing, causing low-skilled jobs in Korea to begin disappearing.
(vi) Labour market reforms and demographic changes in Korean society have altered the characteristics of the labour market, which has, in turn, been segmented in a number of ways. Conflicts have increased within the segmented labour market between unionized and non-unionized workers, regular and non-regular workers, and workers at large companies and workers at small and medium-sized enterprises (SMEs).

I.3 CONTENTS OF THE BOOK

Using the above propositions as a guide, this book contains two parts and nine chapters which explore a variety of topics related to the relationship between social trust and economic development in Korea. The five chapters in Part I explore the dynamic relationships between economic development and social evolution and their effects on social trust from macro perspectives. Certainly, the economy and society of a country develop in tandem, affecting each other. In addition, economic development has strong influence on social trust and vice versa. Social trust is, in general, separated into two forms: interpersonal (generalized) and institutional (Putnam 2000; Newton 1997). Part II is comprised of four chapters that explore recent developments in social trust in Korea from micro perspectives: interpersonal trust, social trust in government, business, and labour.

In light of the paramount importance of social trust for this volume, Chapter 1 opens Part I with examinations of the concepts, determinants, and effects of social trust; the main focus is on the determinants of social trust from economic, social, and cultural perspectives. The chapter then discusses issues involved in measuring social trust and the measurements available, of which this book takes advantage. From these determinants and measurements available in the literature, a working definition of social trust and a conceptual framework underlying the present study are developed. Then, the types of social trust that this book explores are based on the availability of the measurements. Finally, the causal loop from social trust to economic development is explored.

Chapter 2 examines economic development in Korea over the last five decades from the 1960s with an eye on its effects on society. It undertakes a critical investigation of Korea’s economic policies and ensuing economic institutions from the 1960s to the present. In particular, this chapter examines why Korea’s economic policies were successful over the three decades, but ultimately underpinned the causes of the 1997 financial crisis. The chapter, then, critically examines the institutional reforms undertaken in response to the crisis and their possible effects on Korean society. The
chapter discusses the transition of the national economic policy paradigm, undertaken in conjunction with economic reforms, from a state-led industrial economy to a liberalized, market-oriented, and knowledge-based economy. This chapter assesses emerging economic issues, including the sluggish development of the economy in the recent past. Finally, the chapter proposes a policy framework consistent with the nation’s objective of sustainable and equitable social and economic development.

Chapter 3 examines developments in Korean society in line with the four research domains of sociology: social structure, social inequality and mobility, social institutions (formal and informal), and social organizations. Korean society has been transformed remarkably together with its economic development over the last five decades from a traditional agrarian group society to an urban- and industry-based, modern society. Institutional reforms in response to the 1997 crisis and Korea’s embracing of globalization and a knowledge-based economy founded on market principles have generated further changes in Korean society. The chapter analyses the impacts on society that have arisen from the rising living standards and education of Korea’s citizens, urbanization, industrialization, demographic changes, globalization, and information technology. Finally, the chapter investigates the impacts of economic and social developments in Korea on its social trust in the recent past.

Recognizing the complementarity of multiple factors shaping economic development, Chapter 4 seeks to analyse the role of social trust as one of the important development factors for Korea. This is done in conjunction with the so-called four Asian tigers (i.e., Singapore, Hong Kong, Taiwan, and Korea). These four neighbouring countries are selected because they are quite similar in many respects, including their economic backgrounds (the economic take-off time and development process), economic strategies of embracing globalization and innovation-based development, and traditional cultural backgrounds under Confucianism. All these similarities make individual characteristics as determinants of social trust quite similar among them (Algan and Cahuc 2013). In addressing the question of this chapter (i.e., the effects of social trust on Korean economic development), a set of social trust indicators measured by a number of worldwide organizations are selected. Since these indicators are measured through surveys, they are unstable over time; therefore, average values over a certain period of time are used, as they, levelling short-term fluctuations, provide better information for international comparison. The selected set of social trust indicators for Korea is compared with those indicators of the three other tigers. Since the individual characteristics as the determinants of social trust are quite similar among the four tigers, the differences in social trust among them, if any, would be largely attributable to the differences
Social trust and economic development

in institutional trust which, in turn, arise from institutional (formal) differences. To discern a causal mechanism from social trust to economic development, the well-known concept of ‘the method of concomitant variation’ by J.S. Mill and the ‘process tracing’ method are employed. By comparing the differences in per capita GDP of these countries with their respective levels of social trust and by utilizing the methods of concomitant variation and process tracing, this chapter draws a conclusion about the effect of social trust on economic development.

Chapter 5 focuses on the rising socioeconomic bipolarization in Korea, which is one of the core causes of low social trust in the country. First, this chapter assesses the seriousness of income bipolarization and its special features such as the shrinking middle class. Second, the causes of economic bipolarization are investigated, including wage inequality, the ageing population, wealth inequality, and a deficiency in the redistribution system. Third, various types of adverse effects of economic bipolarization on a number of economic and social issues are discussed, including the effects on economic growth, social justice, and educational and health inequality. The literature on the inequality-growth relationship is briefly reviewed and empirical evidence that convincingly shows sizeable negative impacts of income inequality on growth is provided.

Although social injustice is determined by numerous social, political, and economic factors, this chapter explores it from an economic perspective in line with the fair distribution of income and wealth. Consistent with the Rawlsian ethics, two practical guides are proposed: provision of a decent living standard for members of society, and the surpluses beyond the basic living standard being distributed according to effort and ability in the market. Yet these two guides, representing distributional fairness of outcomes, are based on two premises of procedural fairness: fair starting points or opportunities and fair competition in the market. As these premises of procedural fairness are not met in Korea, progressive redistribution against income distribution determined by market forces is justified for the sake of social justice. In this regard, the extents of redistribution in Korea are evaluated.

Finally, the process through which income bipolarization begets educational and health bipolarization is discussed. As evidenced by ample theoretical and empirical studies, the rising bipolarization of income together with the ensuing social bipolarization would have lowered social trust (both interpersonal and institutional) in Korea. Based on its investigation of various aspects of socio-income bipolarization, this chapter suggests ways by which to minimize this bipolarization and strengthen social coherence.

After discussing the remarkably low level of social trust in Korea in Chapter 4, and the rising income inequality and its impacts on various
spheres of Korean society in Chapter 5, Chapter 6 takes us to Part II to consider interpersonal trust, which has been declining and has stayed quite low in Korea as compared to other countries since the early 1980s. According to the World Values Survey (2015), Korea ranked 31st in interpersonal trust over the period 1981–2008. Based on this information, this chapter investigates the reasons for low interpersonal trust in Korea from historical and cultural perspectives. Based on the analysis of the main causes of low interpersonal trust, the chapter provides suggestions on ways by which to enhance interpersonal trust.

Chapter 7 considers social trust in government, which is the core institutional trust. To set up an analytical framework, the literature is reviewed on the concept, determinants, and measurements of trust in government, and its effects on the economy and society. Then, the extents of trust in government in Korea are measured over time and relative to the OECD countries, as a benchmark. This shows convincingly that trust in government in Korea has been declining and is relatively low. Based on this information, the main drivers are investigated, including low efficiency, effectiveness, and transparency of the public sector. One of the most serious social problems in Korea is persistently high corruption, which is not only part of the core cause of low trust in government, but also an underlying factor for many types of social irregularities, such as low public compliance with rules, laws, and social norms. This chapter investigates cultural, political, and economic causes for high corruption and suggests ways by which to eradicate corruption in Korea.

Chapter 8 examines low social trust in business and its socioeconomic effects in Korea. To this end, first, the evolution of the Korean business sector is examined. The Korean business sector has developed *sui generis* characteristics consisting of a limited number of conglomerates (*chaebols*) and a large number of SMEs. The economic power dominance of the former has increased over time, while the latter have stagnated and ended up becoming input suppliers for the former. To establish an analytical framework, the literature is reviewed on the concept and determinants of trust in business, and its effects on the economy and society. Then, the relatively low level of trust in business, as measured by a number of Korean and international organizations, is examined. Based on the determinants of trust in business in the literature, this chapter identifies main causes of low trust in business, including economic power concentration in *chaebols*, poor corporate governance, unfair *chaebol–SMEs* relationships, and high levels of business corruption. From this investigation, this chapter proposes public policies to enhance trust in business in Korea.

Chapter 9, the final chapter, investigates causes of low social trust in labour, including the labour market, labour unions, and labour-management
Labour has played a critical role in economic development in Korea. Yet, industrial relations remained underdeveloped due to government intervention until the end of the 1980s. Since the political democratization in 1987, labour-management relations have transformed to a remarkable extent. However, labour unions frequently applied militant tactics for their causes, and labour costs rose quickly, well above those of neighbouring countries. Companies could not downsize their labour forces even when faced with managerial difficulties. This rigidity in the labour force and high wage rates became part of the reason for the 1997 crisis.

Although substantial reforms were undertaken in the labour market after the crisis, little improvement was made in labour force flexibility. Under these circumstances, companies have expanded the use of non-regular workers who are discriminated against in many respects, when compared to regular workers, creating a dual structure of employment. Conflicts have arisen within the segmented labour market between unionized and non-unionized workers, regular and non-regular workers, and workers for large companies and SMEs. In addition, incessant labour disputes and the unions’ militant tactics (legal and illegal) have raised social discontent and distrust in labour.

Chapter 9 investigates Korea’s human resource development policies which have contributed to the causes of these conflicts in the labour market and low social trust in labour. The format of this chapter is the same as the immediately preceding three chapters. The literature on the concept, determinants, and measurements of trust in labour and its effects on society and economy is briefly reviewed. The seriousness of low trust in labour in Korea is assessed by comparing Korean indicators of trust in labour with averages across the OECD countries. Based on the determinants of trust in labour in the literature, this chapter identifies a number of main causes of low trust in labour in Korea, and proposes a set of public policies to raise trust in labour.

Overall, the analysis in this book weaves together a rich array of topics across the nine chapters to present an informative and comprehensive picture of the dynamic relationship between social trust and economic development and the policy thereof over the last four decades in Korea. The institutional approach for this analysis enables examination of both informal and formal institutions, focusing both on the flow of causality from institutional changes to economic development and from economic development to social trust from macro perspectives in Part I and on the causality flows from components of social trust to socioeconomic development from micro perspectives in Part II. The choice of topics most pertinent to this discussion has been guided by the nature and magnitude of institutional transformation resulting from economic and social
developments. The concern and themes taken up across the nine chapters provide the underpinnings for continuity across the volume, although each chapter can also be read independently.

This book is shaped by the author’s keen awareness of the unremitting nature of globalization and information technology advancement and their impacts on national economies and societies worldwide. Some observers may argue that the globalization process with readily available information and technology will precipitate further change in the Korean economy and society that will keep them on a path of convergence with the economies and societies of advanced countries. However, this book maintains that the distinctive nature of Korean culture and its institutional framework will continue to preserve the *sui generis* characteristics of the Korean economy and society. The slow adjustments in culture and institutions that underlie the Korean society and economy have resulted in all sorts of social abnormalities and irregularities in recent times. This has led to, among others, relatively low social trust in Korea, which in turn has inhibited economic development. The investigation of the striking developments in the Korean economy and society, which this book attempts to undertake, will provide valuable pieces of information for those seeking to understand recent developments in the Korean economy, society, and social trust as well as their mutual dynamic relationships. An important message this book delivers is that, because of the mutual relationship between economic development and social trust as well as social development, economic development policy should explicitly take into account its effects on social trust as well as the reciprocal role of social trust on economic development. Without doing so, neither economic nor social development is sustainable, as evidenced in Korea.

NOTES

1. The human development index by the UNDP combines three elements: long and healthy life, knowledge, and living standard.
2. The *Sewol* ferry capsized en route from Incheon to Jeju on 16 April 2014. In all 304 passengers, mostly secondary school students, died in the disaster. It was alleged that the tragedy had occurred due to dysfunctional inspections and monitoring of the ferry operation because of corruption and cronism.
3. The overall business cycle index, economic psychology index, and consumers’ perception of business cycles all showed significant setbacks over several months right after the *Sewol* ferry tragedy in April 2014 (KOSIS 2018b).
4. Two institutional approaches exist in economics: the old and new institutional economics. The institutional approach that this book has adopted is the latter. For a brief explanation of the differences between them, see Nee (2005).
5. North (1993) cited an empirical study that showed that 45 percent of US gross national product (GNP) in 1970 was devoted to transaction costs.
Social trust and economic development

6. It is of course acknowledged that the social trust of a nation is a complex phenomenon shaped by multiple factors.
7. It must be noted that Hong Kong is a Special Administrative Region (SAR) of China, not a country. In this chapter it is included with the other tigers as a ‘country’ to simplify the language. For the same reason, Taiwan is referred to as a country, instead of being referred to as the Taiwan Province.
8. The concepts of concomitant variation and process tracing are utilized broadly in comparative politics and sociology.

REFERENCES

OECD (2013), Strengthening Social Cohesion in Korea, Paris: OECD.