

The Development of Social Enterprises in a Developmental State

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Abstract—This paper examines the development of social enterprises in South Korea and how the government has involved in it. It is found that the model of ‘developmental state’ continues in government’s intervention to SE development which implies a relatively weak role of civil society and the cultural influence of Confucianism.

Index Terms—Social enterprises, South Korea, developmental state, strong government role.

I. INTRODUCTION

The term ‘social enterprise’ has grown in popularity in the press and the literature in recent years. The concept is firstly emerged in the Europe and the United States. After its popularity in Europe and the United States, other regions, like East Asia had also started to pay more attention to the phenomenon of the new kind of enterprise. In South Korea, the government regards the social enterprise as means to solve social problems like high unemployment rates and therefore has put great efforts in fostering its development.

Generally speaking, social enterprise primarily refers to economic activities that serving a social goal and it combines characteristics of both traditional for-profit and non-profit sectors [1]. As a new bridge between co-operatives and non-profit organizations, the growing social enterprise has drawn great attention from different sectors. The interest demonstrates that social enterprise is not mere a fashionable discourse but rather an important response to social needs and problems. Despite increased interests in this field, scholarly research still lacks a unifying paradigm with no unified definition of the “social enterprise” [2]-[4]. Its unique nature has made it an interesting topic and worth further study.

Since the mid-2000’s, facing very similar socio-economic challenges, some Eastern Asian regions, like Hong Kong, Taiwan, Japan, Singapore and South Korea have developed a strong interest in western experiences of social enterprise [5]. Among these regions, the Korea social enterprise stands out for its rapid growth and government’s active promotion. While in many other countries, social enterprises were initiated largely due to efforts of the civil society, Korean social enterprises were developed and led by the government. Critics say that South Korea has maintained as a ‘developmental state’ over past years, although some reforms have been carried out. With strong government involvement, Korea remains as the only country in East Asia to legally define a ‘social enterprise’ and the government continues to

build a framework for supporting its development which is nonexistent in many nations [6]. South Korea’s experience of social enterprise is very unique and might be valuable to Hong Kong’s social enterprise development and therefore it is chosen for the study in this paper.

The purpose of this paper is to review the development of Korean social enterprises and how the government has involved in it. As South Korea fits the model of ‘developmental state’, the main purpose of this paper is to explore whether the Korean government’s policy in developing social enterprises and this evolution is consistent with government’s role in guiding its economic policy development over past decades. Therefore, the paper will mainly include two parts: 1) the historical role of the state in economic development and 2) the government’s involvement in developing Korean social enterprises.

II. SOUTH KOREA AS A “DEVELOPMENTAL STATE”

South Korea has been described as a “developmental state” as its remarkable economic achievements were largely the result of government initiatives and strong intervention since the early 1960s [7], [8]. The term “developmental state” is used to describe the phenomenon of state-led economic planning in East Asia in the late 20th century and emphasize the state’s political power and capacity to control over the economy. It highlights the crucial role of the government in developing and implementing economic policies and using country resources to accomplish its objectives [9].

After 1997 Asian financial crisis, although it is said that the Korean state made a transition to a neoliberal market economic system, a strong state role can still be identified [10], [11]. The following part will argue that despite the emergence of neoliberal and welfare policies since 1990s, the Korean government has retained the country’s fundamental basis as a development state over past decades.

A. *The Rise of the Developmental State in South Korea (1962-1992)*

The Korean government has taken a leading role in economic development since 1960s as the private sector was not adequately developed at that time [8]. During these three decades, the Korean developmental state was largely led by military leaders who orchestrated economic development through oppressive and coercive control. The Park government created a strong alliance with Korean chaebols and provided them great support in the purpose of boosting economic development. [7]. The economic growth of the country during this period was impressive: From 1962 to 1992, GDP per capita increased 72 times and the

unemployment rate steadily declined from 8.1% to 2.5% [8]. It is believed that the remarkable growth outcomes led by the authoritarian and developmental state laid the foundation for the government's stance of undertaking a strong role in economic development.

B. The Beginning of Economic Liberalization (1993-1997)

Kim Young Sam, as the first president without a military background since 1962, tried to pursue a more open and transparent economy [10]. Nonetheless, the transition was carried out without internal restructuring of the national economy and thus the developmental state continued in Korea during Kim's term of office. Due to government's failure in weakening the power of the chaebols and its non-market allocation of resources, the Korean economy was plunged into serious difficulties during the Asian Financial Crisis in 1997 [12].

C. The Emergence of Neoliberal and Welfare Policies in South Korea (1998-2007)

After the 1997 financial crisis, the Korean government was facing numerous social problems and was in a great need to recover from the economic difficulties. The Kim Dae Jung government was forced to ask the International Monetary Fund (IMF) for emergency liquidity support. The IMF provided a rescue package but it came with a set of conditions for economic liberalization. As a result, a neoliberal regulatory system was introduced under IMF prescriptions. [8], [10]. Moreover, the Kim government introduced welfare measures to assist the disadvantaged, especially the newly unemployed workers from the crisis. [13]. Nonetheless, despite the introduction of neoliberal and welfare policies, the heavy hand of the government and its strong control over financial institutions were still clearly visible. The Kim Dae Jung government initiated a significant restructuring of the economy with very strong government intervention, as is evident in its support for the information and communications technology industry as a new post-recovery engine of economic growth. [8].

Under the pressure of globalization and financial liberalization, the Roh Moo Hyun government attempted to transform its government from an authoritarian to a more participatory and approachable government since 2003 [13]. Roh has introduced some neoliberal policies, like the signing of the Korea-US Free Trade Agreement (FTA) in 2007 and also continued the Kim Dae Jung government's policy in increasing labour market flexibility [12]. However, same to the previous government, Roh maintained a big government which resulted in the large growth of civil servants and the expansion of public finances. Interventionist policies were also introduced, including the government's support toward the growth of the knowledge and cultural industries as a new source of economic growth and development of the country. [7].

D. A New Developmental State (2008-2012)

After Kim and Roh governments, the Lee Myung Bak government promised to carry out market-friendly economic policies and campaigned as a pro-business government [14]. The Lee government was regarded as the most neoliberal of

all Korean governments and the key strategy behind its policies was that economic development would be led by the expansion of the private sector. However, even under Lee, the Korean government retained its capacity to intervene in the economy as it can be seen from the government's promotion of the Green Growth industry and the national Four Rivers project [8].

As a summary, Korea has developed into a developmental state prior to the 1990s and this fundamental stance of the government remained. Although Korea began a transition towards a neoliberal system in early 1990s and some attributes of a welfare state have emerged since 1997, the developmental state policies were maintained throughout in Korea. The government has retained its capacity to intervene in the economy and its basis as a developmental state even in 2010s. As the government is not likely to forgo its capacity to intervene in the near future, a strong government involvement can be expected in the development of Korean social enterprises [15].

III. DEVELOPMENT OF SOCIAL ENTERPRISE IN SOUTH KOREA

In most cases, social enterprises are initiatives launched by a group of citizens or civil society organizations [16]. Korean social enterprises nevertheless were introduced and initiated by the government as a part of a state-led project to address social problems. A strong government role and the top-down development model distinguishes Korean social enterprises from European ones and also from U.S. experiences [17]. This section will argue that in the development of Korean social enterprises, the government continues to be involved extensively which is in line with its developmental state basis and a strong role of the state can be identified in both stages: 1) The emergence of quasi-social enterprises; 2) The rise of social enterprises.

A. Emergence of Quasi-Social Enterprise

The concept of social enterprise was originally initiated in the course of an interaction between the government and social movements since 1980s. In the aftermath of the 1997 Asian financial crisis which unexpectedly led to a massive scale of unemployment in South Korea, the government identified the importance of self-support organizations in creating job opportunities and ensuring welfare benefits for the jobless people [5], [17]. Since then, the government started its involvement in developing and supporting social enterprises.

In 1999, the Ministry of Welfare and Health introduced the "Self-support Programme" which was designed closely to the European model of social enterprises aimed at coping with problems of unemployment and poverty [18]. This programme has been regarded as the first attempt of the Korean government to support quasi-social enterprises. Later, in 2003, the "Social Workplace Programme" was introduced with a similar purpose to support self-sufficiency organizations but focused more on the work integration of the working poor and dealing with long-term unemployment. [19].

Nonetheless, due to heavy pressure and a high degree of

dependence on government's subsidies, these organizations failed to create long-term jobs to the unemployed [17]. This failure and the government's great need for new solutions triggered the first emergence of certified social enterprises in South Korea which was initiated by the government.

B. The Rise of Social Enterprises

In 2007, the South Korean government enacted the 'social enterprise promotion act (SEPA) to create the infrastructure for adopting social enterprises as a policy tool [19]. The act defined social enterprises as "enterprises that seek social goals by offering social services or jobs to the socially disadvantaged and that carry out entrepreneurial activities by producing and selling goods or services" [20]. While the act has provided a certification system for social enterprises, it also prohibited other organizations use the term of social enterprise [5].

Park (2009) noted that a budget of 1.3 trillion Korean Won has been set to support the establishment and development of social enterprises in 2007 alone and a Social Enterprise Support Committee has been established for deliberation of the basic support plan for social enterprise, concerning issues on criteria for the certification of a social enterprise, certification on social enterprise and also other issues relating to the support for social enterprises [20]. Followed the legislation, the Korea Social Enterprise Promotion Agency (KoSEA) has also been established in 2010 with the purpose of providing administrative and financial support to social enterprise [21]. Since then, a series of support has been provided by the government promote social enterprises and led to a rapid growth of social enterprises in South Korea. Until 2014, there are over 1,100 certified social enterprises and the government aims to promote more than 3,000 certified social enterprises by 2017.

In a summary, Korean certified social enterprises did not start based on active efforts and involvement of the third sector but rather as an initiative launched by the government. The development of Korean social enterprises has been largely led by the government which reflects the fundamental basis of the government as a developmental state.

This state-led evolution also reflects a relatively weak role of Korean civil society and a traditional top-down culture in South Korea. It is said that Korea's economic miracle was built on the back of a repressed civil society before 1990s. [22]. The Civil Society Index highlights that the most critical problem of civil society organizations in South Korea is the lack of adequate financial and human resources, followed by the limited citizen participation. [23]. The legal context is also unfavorable for the development of Korean civil society as national security laws restrict advocacy activities and tax laws limit the tax exemption benefits for civil society organizations.

IV. CONCLUSION

South Korea has long been regarded as a "Developmental state" since early 1960s due to the strong government intervention in the economy. Despite policies toward neoliberal and welfare states since 1990s, however, the Korean government retained its ability to intervene in the

economy and maintained the developmental state policies.

This paper demonstrates that the Korean government has continued adopting a leading role in the economy by exploring its intervention in the development of social enterprises. It is tested that this evolution is actually in line with Korea's developmental state orientation. The literature shows that the government continued its strong involvement in the development of social enterprises as it has been regarded as an important means to address unemployment and poverty problems in Korea.

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