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The Political Economy of Education and Skills in South Korea

Democratisation, Liberalisation and Education Reform in Comparative Perspective

Timo Fleckenstein & Soohyun Christine Lee

Abstract:

The success story of Korean economic development is intimately linked with the so-called developmental state; and education policy, as part of centrally orchestrated industrial policy, played a critical role in the country's rapid industrialisation, which allowed for high employment rates, relatively modest social inequality and remarkable social mobility. However, the Korean success story has started to show 'cracks' – with labour market dualisation, rising inequality and 'over-education'. Whilst acknowledging the importance of the East Asian financial crisis as external shock for the Korean political economy, we suggest more fundamental problems in the socio-economic and socio-political underpinnings of the developmental state and its education and skills formation system for understanding how Korea's economic and education miracle turned into 'education inflation', skills mismatch and social polarisation.

Key Words:

South Korea, Private Education, Skills Formation, Industrialisation, Democratisation.

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The development of the Korean society and economy is astonishing. From colonial suppression and the devastation of the Korean War (1950-53), the country developed into an advanced economy and high-income country within the matter of a few decades, with one of the fastest growing economies in the developing world. In 1996, Korea entered the 'club of rich nations', the OECD. Also, considering the absence of a developed system of social protection, it is remarkable that the country presented a relatively egalitarian society. Not only Korea managed to 'lift itself from poverty' (Ringen et al. 2011) but also to reduce social inequality and to promote social mobility (Cheon 2014; Park 2010).

The success story of Korean economic development is intimately linked with the so-called developmental state at the heart of rapid industrialisation in the 1970s and 1980s. The authoritarian state subordinated all aspect of policy to its economic modernisation project. Education policy, as part of centrally orchestrated industrial policy, played a key role in the rapid economic development of the country. In fact, the Korean 'economic miracle' is closely associated with an 'education miracle'. The critical importance of Korea's "sound educational infrastructure" (Jeong 1995: 7) is widely highlighted when appraising the extraordinary rapid industrialisation the country experienced; and Cheon suggests a "virtuous cycle (...) in which education and growth reinforced each other" (2014: 219; see also Ashton et al. 2002 and Park 2012 on the developmental education and skills formation regime).

However, the Korean success story has started to display 'cracks'. Admittedly, the slowing down of growth rates is something one might expect with the maturation of the economy. But we also observe a significant increase in social inequality, unemployment (especially, youth unemployment) and labour market dualisation with a massive increase in irregular employment. The struggle of young people to enter the labour market might be considered par-

ticularly puzzling in light of substantial education expenditure and the extraordinary educational attainment of young Koreans. However, closer inspection shows considerable skills mismatch in the Korean labour market caused by ‘over-education’ (Park 2011; OECD 2009a); and, despite a well-educated workforce, Korea presents very poor labour productivity by international standards (OECD 2015).

These observations suggest that the ‘virtuous cycle’ that has been associated with developmental skills formation is no longer in place. The decline of the developmental state is typically discussed in the context of the East Asian financial crisis of 1997 (Lee and Han 2006; Lim and Jang 2006), and indeed labour market deregulation in the aftermath of the crisis is key to understanding the rise of irregular employment and social inequality (Peng 2012; Song 2014). However, whilst acknowledging the importance of the East Asian financial crisis as exogenous shock for the Korean political economy that could be read in terms of breaking a ‘punctuated equilibrium’ and creating a ‘critical juncture’ (Collier and Collier 1991; Krasner 1988; see also on institutional stability and change in comparative political economy: Deeg and Jackson 2007; Mahoney and Thelen 2010), we suggest more fundamental problems in the socio-economic and socio-political underpinnings of the developmental state and its education and skills formation system for understanding how Korea’s economic and education miracle turned into ‘education inflation’, skills mismatch and social polarisation.

Before the East Asian financial crisis, the developmental state and its education and skills formation regime appeared as a stable equilibrium allowing rapid economic modernisation; and the above mentioned ‘virtuous cycle’ suggests institutional complementarities underpinning self-reinforcement and stability (i.e. path dependence). According to the prominent Varieties of Capitalism approach, “two institutions can be said to be complementary if the presence (or efficiency) of one increases the returns from (or efficiency of) the other”

(Hall and Soskice 2001: 17; see also Crouch 2010; Deeg 2007). Yet, there were considerable conflicts beneath the surface, which has received insufficient attention in the developmental state and, more generally, the East Asian political economy literature. These long-standing conflicts are critical to the transformation of Korea's previously highly coordinated market economy (CME) after democratic transition in the late 1980s. Paradoxically, the success of the Korean developmental strategy, we argue, undermined the very foundations of the developmental state. As intended, the 'economic miracle' produced large, family-controlled business conglomerates (so-called *chaebols*), whose rising economic and political power undermined the state's steering capacity, and this process was accelerated by democratisation and economic liberalisation of the 1990s.

Democratisation also undermined the state's capacity to suppress the population's deeply engrained desire for academic education (as a means of social mobility), which was, in the aftermath of the East Asian financial crisis, further driven by labour market dualisation, associated job insecurity and rising social inequality in the face of considerable gaps in social protection. Whilst huge private investments in education facilitated the 'education miracle', it ultimately produced an incredibly inefficient allocation of resources, over-education and skills mismatch. In other words, the 'virtue' of mobilising significant resources for education turned into 'pathological' strategies to secure *chaebol* employment, which has become ever less likely because of *chaebols'* ever shrinking internal labour markets. By contrast, small- and medium-sized enterprises (SMEs) suffer from a lack of skilled workers. Korea is, as a result, characterised by skills polarisation and a low skills/low productivity trap as far as large parts of the economy are concerned.

Instead of relegating the transformation of Korea's education and skills formation regime to the exogenous shock that is associated with the East Asian financial crisis, we highlight

endogenous sources of institutional change that are not compatible with the equilibrium-functional approach of Varieties of Capitalism and institutional complementarities. We argue that the developmental state and its education and skills formation regime have always been a very fragile equilibrium that rested upon an all-powerful state (an authoritarian regime in fact) rather than genuine self-reinforcement that is associated with institutional complementarities. Contestation, though suppressed, persisted during the authoritarian episode, and democratisation in the late 1980s finally allowed voice and outright 'defection' of not only employers but also parents.

In an endogenous model of institutional change, the focus of analysis is on "how social and political interaction transforms institutions" (Capoccia 2016: 1096). Here, the issue of power and, especially, the imbalance of power is critical. As Amable (2000) underlines, institutions and complementarities are the result of social and political struggles, and 'losers' do not simply disappear. Not only the East Asian political economy literature but also, more generally, the institutionalist literature have been downplaying power and conflict in episodes of institutional reproduction (cf. Peters, Pierre, and King 2005; Mahoney and Thelen 2010). For this reason, a historical-political approach to institutional change is much better equipped to help us understand the political economy of education and skills in Korea and the country's departure from the developmental education and skills formation regime. By highlighting how the change of power dynamics between the state, business and parents drove the breakdown of the fragile equilibrium that led to Korea's departure from the regime, the paper seeks to overcome the equilibrium-functional bias in the literatures and to contribute to identifying endogenous sources of institutional changes. Korea's education and skills formation system and its transformation is discussed against the experiences of Germany and Britain. The former is widely considered the archetype of a CME with an apprenticeship model combining

workplace training with vocational training schools (so-called 'dual system') to produce (industry) specific skills, whereas general skills formation through universities features less prominently. By contrast, Britain – the European prime example of a liberal market economy (LME) with a voluntarist skills formation regime – relies heavily on general skills formation at universities with little attention paid to specific skills through the vocational education and training (VET) system (Ashton, Sung, and Turbin 2000; Hall and Soskice 2001). This comparative perspective aids the assessment of the scale and nature of change observed in Korea, and supports the argument that Korea has not only departed from its developmental trajectory (characterised by a high degree of coordination) but also increasingly displays features of LMEs. This shift towards a liberal education and skills formation regime has been facilitated by business defecting from the developmental alliance, as well as liberal employment and social protection to which parents responded with excessive investments into education. Thus, rather than adopting an unspecified post-developmental perspective, we suggest the use of established tools in comparative political economy – not only to improve our understanding of education and skills in Korea, but also for better integrating East Asian political economies in the comparative literature of advanced political economies. Our analysis of the Korean case also calls for a greater prominence of *education* policies in the dominant institutionalist political economy literature with its limited focus on *skills formation* in the workplace.

The paper is structured as follows: We first review Korea's historical developmental education and skills formation regime and the associated 'economic miracle'. The paper then assesses the initial expansion of higher education in the 1980s and the crumbling of the developmental regime. In the analysis of education and skills after democratisation, we first look at employers withdrawing from the old regime, and then parents and the outbreak of 'education fever' breaking the developmental education and skills formation regime.

Developmental Skills Formation, Late Industrialisation and the Korean “Economic Miracle”

When Korea gained independence from Japan in 1945, its economy was dominated by agriculture, and the country was not only utterly poor and under-developed but also lacked any meaningful educational infrastructure. During colonialism, the Japanese rulers heavily restricted access to education and even banned the use of the Korean language. To fight widespread illiteracy, the Rhee Syngman government (1948-1960) of liberated (and at first democratic) Korea initiated a massive and rapid expansion of primary education. Though interrupted by the Korean War (which brought nationwide devastation and impoverished the Korean people even further), educational progress was remarkable, and the country saw the illiteracy rate of the over-12 year-olds drop from 78% in 1945 to 27.9% by 1960. At the early stage of industrialisation, this expansion of basic education provided the economy with an abundance of unskilled but literate workers to build up light, labour-intensive manufacturing that allowed breaking into world markets with low-cost labour (Ashton et al. 2002; Ihm 1999).

Based on a strong belief that education presents as an important means of social mobility and social status (and is not only an end in itself as Confucianism would suggest; cf. Seth 2002), the rapid expansion of primary education stoked up considerable social demand for secondary education, quickly accelerating in the 1960s. In an educational context with firmly established and widely accepted ranking systems among secondary schools and tertiary institutions, parents in pursuit of their children’s admissions to desired schools and colleges mobilised considerable financial resources for private tutoring to complement public education. So-called ‘shadow education’ developed unseen dimensions in Korean society, especially with affluent middle classes using their financial power to fuel increasing educational competition. In 1967, it was estimated that about 9 in 10 six-graders in Seoul received private tutoring, for

instance. To address this development which turned into a social concern receiving considerable public attention, the Park Chung-Hee government, which forced itself into power in a military coup d'état in 1961, introduced a Middle School Equalisation Policy in 1968, which replaced a school entrance examination system with a lottery system within school districts. This was followed by a similar policy for high schools. Also, in addition to turning private schools into de-facto state schools in terms of finance and governance structures, 'elite' schools in the eyes of the public were converted into general schools as another measure to crack down the deeply engrained hierarchy among Korean schools. Unsurprisingly, this authoritarian policy met considerable opposition from well-off families, private and elite school organisations and some education experts who feared falling school standards, but the authoritarian Park Chung-Hee government remained unimpressed. In the wider population, a sense developed that private education and competition reached unacceptable dimensions, and for this reason the government's draconian action is thought to have boosted the legitimacy of the regime. Importantly, this equalisation policy also needs to be seen in the broader political economic context of early Korean industrialisation, which needed a large and steady supply of workers with basic to moderate skills to satisfy the demand from a rapidly expanding manufacturing sector. In this situation, the ambitions of the middle classes (also reflected in a rising number of students repeating the sixth grade to prepare for middle school entrance exams) was considered misplaced and perceived as hampering economic development (Park 2010).

The economic success of the developmental strategy of the 1960s created labour shortages and corresponding pressure on wages, which in turn made light-industry-based development increasingly unfeasible. In this context, leaving the basic skills route of industrial development became a political priority and a deliberate change of strategy towards higher

value-added manufacturing was undertaken. The Park Chung-Hee government started to pursue an ambitious Heavy and Chemical Industrialisation Plan in the early 1970s, and the developmental state considered skills policy as an intimate element of its new industrialisation strategy. It was understood that the supply of mainly semi-skilled labour to the emerging industries was imperative for the government's economic project, and thus required significant efforts in human capital investments for greater productivity and labour force stability. This provided the socio-economic underpinnings for increased expenditure on education and training but also on health and enterprise welfare (Ihm 1999; Deyo 1992).

In this context, building on the progress in primary education, the Park Chung-Hee government increased its investment in secondary education with a strong *vocational* orientation, to produce the craftsmen needed for the desired heavy and chemical industrialisation. Throughout the 1970s, we observe an expansion of vocational high schools, and the government was keen to increase the number of students in these schools. Whilst the government was not able to 'force' students into vocational education, the very strict control of enrolment quotas for each public and private university at the departmental level – not meeting public demand – severely limited access to higher education; and this effectively directed young people onto the vocational track (Ihm 1999; Kim and Lee 2006; Morris 1996).

The prioritisation of vocational high schools, however, was not without controversy either. Employers felt that vocational high schools could not keep up with changes in the workplace and provided them with outdated skills. Unsurprisingly, many parents also felt uneasy about pushing their children onto the vocational track. Parents continued to have a strong preference for general high schools (humanities track) that were geared towards universities; and vocational high schools and vocational two-year colleges, which were promoted by the authoritarian government, were regarded as being of low social status. Applicants to

vocational colleges were typically those who failed to enter four-year universities (Ihm 1999). This strong preference for academic education and little appreciation for the vocational track compares well to the situation in Britain, which also displays a rather rigid educational hierarchy, ascribes great importance to rankings and is well known for its elite institutions in education. Thus, with its 'working-class heritage', VET in Britain, likewise, suffers from a very poor image and is typically left to underachieving youngster who fail to enter university (Fisher and Simmons 2012).

A key element of the Korean industrial strategy was the nurturing of national champions to promote economic development. Providing low-interest credits and industrial subsidies among others, the developmental state facilitated the building of business conglomerates, which became to dominate the Korean economy (Amsden 1989; Johnson 1987). Critically, this economic structure with the presence of large workplaces allowed the establishment of enterprise-based skills formation. In 1974, in the face of the insufficiency of VET schools and anticipated skills shortages in the government's science and technical manpower forecast, new legislation required large employers (first the ones with more than 500 employees, and later the ones with more than 300) to train a certain share of their workers, and non-compliant businesses were fined. Although the government did not directly 'force' employers to intensify their investments in vocational skills, the training levy resulted in a significant rise in training activities – from 48,000 craftsmen between 1967 and 1971 to about 177,000 in the following five-year period, and numbers peaked at almost 340,000 between 1977 and 1981 (Green et al. 1999; Park 2012). SMEs lacked the capacity for workplace-based skills formation, but they benefited from some 'excess' skilled labour that the training levy produced in large workplaces. Yet, SMEs continued to rely, to a considerable extent, on state-provided VET, contributing to the increasing skills schism between *chaebols* and SMEs (Ashton et al. 2002).

Nonetheless, until the mid-1980s, wage differentials by firm size were “almost non-existent” (Korea Labor Institute 2009: 80); and, indeed, we observe a decline in social inequality from the 1970s (Cheon 2014), supporting the argument of egalitarianism during the authoritarian regime (Park 2010).

In this critical episode of Korean late industrialisation and rapid economic growth, as well established in the developmental state literature (Amsden 1989; Wade 1990), we find a strong state, with the infamous Economic Planning Board and its five-year economic development plans at the heart of policy-making, that pursued a manpower planning policy, in which vocational high schools and workplace training delivered the *specific* skills needed for industrialisation. Also, the extraordinary centralisation in the developmental state made possible an effective coordination between industrial and education policies (Ashton et al. 2002; Park 2012). State-led coordination, thus, allowed to overcome market failure (especially, the problem of free-riding) that is commonly associated with specific skills formation (cf. Crouch 2006 on skills formation systems). However, besides ensuring compliance of business, government also needed to suppress the public demand for academic education (namely, discouraging general high schools and limiting the access to higher education) to provide the economy with vocational skills. Hence, with regard to both business and society, the developmental state displayed strong interventionist regulation; and it was ultimately the massive imbalance of power between the authoritarian government, on one side, and business and society, on the other side, that allowed the state to dominate the production regime and enforce its vision of industrialisation, which admittedly produced some remarkable economic results. This and the seemingly stable reproduction of the developmental institutional arrangement could, *prima facie*, be read in terms of the notion of complementarity of an equilibrium-functionalist approach. Though, the success of the developmental strategy was also

critical for the political legitimization of the authoritarian rule of President Park Chung-Hee (cf. Kwon 1999), to which also strict employment protection enforced by the state in core sectors of the economy contributed in the absence of comprehensive social protection (Deyo 1992; Song 2014).

Korea in this critical episode of industrialisation is well described as a CME as the authoritarian state displayed extraordinary 'coordinating' capacity, but it presents an institutional reproduction that is rather different from Germany's traditional corporatism, where employers and trade unions are intimately involved in coordination, including the skills formation system (Bosch and Charest 2008; Hall and Soskice 2001). Instead, coordination in Korea's political economy rested upon a strong state that was able to impose its policies in the absence of democracy (which makes Korea also different from its Japanese neighbour; cf. Pempel 1998 and Rosenbluth and Thies 2010 on Japan's political economy). In the authoritarian state of Korea, trade unions were repressed to ensure low-cost and disciplined labour and to prevent the rise of the political left, as open dissent from employers was not tolerated by the Park Chung-Hee government either (Deyo 1987; Jones and Sakong 1980).

The Expansion of Higher Education and the Crumbling of Developmental Skills Formation

After initial success, the training levy struggled to deliver, and we observe a decline in workplace learning from 340,000 to 115,000 between 1982 and 1986. An increasing number of companies, still arguing that the training system was too rigid to respond to the changing skills demands of the Korean economy, preferred to pay fines rather than providing in-house training. Apparently, the training levy failed to establish a skills formation system that was comparable to the aspired German vocational system, but instead produced relatively basic voca-

tional skills (mainly at the semi-skilled level) (Ashton et al. 2002; Park 2010). Hence, the developmental skill formation regime displays some first cracks. Business had become increasingly unwilling to comply with the government's expectations; and employers' rising economic power, to a great extent a result of the government's successful industrialisation strategy, allowed business to display some limited dissent (Hundt 2009; Kim 2003). The persistent employer reluctance to engage positively with vocational training in the workplace suggest that the enforced skills formation regime of the 1970s did not develop into a stable equilibrium. Employers failed to develop genuine interest in upskilling their workforce. This is rather different to the German experience where employers developed a genuine commitment to vocational skills formation, which facilitated remarkable productivity improvements and Germany's system of diversified quality production (Streeck 1992).

Additional (political) pressure on education and skills formation can be observed in the aftermath of the assassination of President Park Chung-Hee in 1979 by the director of Korea's central intelligence agency. This assassination created a power vacuum in the military regime, which was used by General Chun Doo-Hwan to seize power in a coup d'état. Not only was the new government confronted with increasingly non-compliant employers, but also with growing public dissatisfaction; and accordingly it needed to increase its political legitimacy. For the urban middle classes, education remained a major social concern, and the remarkable expansion of secondary education in the 1970s fuelled further the demand for higher education. Confronted with considerable political pressure and social unrest across the country (including a democratic uprising that was crushed as exemplified in the Gwangju massacre), the new Chun Doo-Hwan government eased entry into higher education by increasing admission by 30% (as compared to original 1981 admissions quota) and by 50% in the following year. The new policy, however, also prescribed that the number of graduates should not

exceed the number of the previous admissions quota in order to increase competition amongst students – also to divert them from widespread political activism. This new ‘graduation quota’ proved incredibly unpopular – not only with parents and students who feared failing their degrees after making considerable time and financial investments, but also with universities. The government, lacking the power of the previous Park Chung-Hee administration, could not ignore the public pressure; and it decided not to implement the graduation quota, showing the limits of government control in the 1980s despite continued authoritarian rule. As a consequence, student number almost tripled between 1979 (the year of Park assassination) and 1986 (the year before the beginning of Korean democratisation) (Kim 2008).

Whilst relaxing the regulatory stance on higher education, the Chun Doo-Hwan government implemented an outright ban of private tutoring in 1981, in response to its souring demand in the face of highly competitive university entrance exams. Middle classes continued to make excessive use of private tutoring with an increasing effect on lower classes, which were not actually in a financial position to enter the costly ‘race’ for university education. For a growing number of families, private tutoring presented an immense financial burden; and the ban, for this reason, received some considerable public support, as the equalisation policy during the Park Chung-Hee government (Park 2010).

The development in the 1980s mark the beginning of “massification” of Korean higher education (Kim 2008: 233). Yet, despite allowing a considerable growth in student numbers, it is important to note that the state continued to perform the role of a critical regulator. Not only continued the government to regulate student numbers, but also, importantly, it banned private education to improve resource allocation in education. Further to this, regardless of employers’ discontent, the training levy remained in place. Political legitimatisation was cer-

tainly an important reason for the Chun Doo-Hwan government to better accommodate parental preferences for academic education. But these developments starting in the early 1980s also need to be seen as the government's attempt to facilitate higher skills in order to promote knowledge-based high-technology industries for a more diversified economic structure (Green et al. 1999; Cheon 2014; Jessop 2016). Thus, on the one hand, we find a government that continued with significant intervention into the economy complying with the image of the developmental state; on the other hand, the authoritarian state displayed greater responsiveness to societal demands to legitimise its rule, which could be interpreted as a decline in 'coordinating' capacity – not only responding to parents but also 'allowing' large companies to reduce their training efforts. In other words, although the state certainly continued to dominate, we observe a shift in the balance of power -- no longer allowing the state to prescribe in the manner of the Park Chung-Hee government. Critically, in terms of the education and skills formation regime, the change in education and skills policy initiated the move towards LMEs with their focus on more general skills, as opposed to specific (vocational) skills which dominate CMEs like Germany, but also its 'developmental' variant as exemplified in the Korean case.

Democratisation, Economic Liberalisation and the End of Developmental Skills Formation

The departure from developmental skills formation and move toward general skills formation continued after the country's transition to democracy at the end of the 1980s. At first, though, the government of the newly elected President Roh Tae-Woo (with one foot still in the past, as he was 'hand-picked' by the previous military regime and successful only, since opposition forces could not agree on a united candidate) tried to 'reinvent' the developmental skills formation system. It extended the training levy to smaller companies (as small as with 150 employees) as well as increasing the levy; and the government wanted to increase the share of young people in vocational high schools from about one third to 50%. This, however, did not translate into greater training engagement, or more students on the vocational high school track (Green et al. 1999; Ihm 1999). Also, the government's experimenting with vocational training that was thought to emulate the German dual system failed to deliver. Employers continued to display little interest in upskilling their workforce but rather stuck with their established low-price product strategies (Green et al. 1999; Jeong 1995).

The failed copying of the German dual system resembles similar experiences in Britain, where the conservative Major government introduced the so-called 'Modern Apprenticeship' around the same time, in order to improve intermediate (vocational) skills with the ambition to boost productivity levels, which compared poorly to some of the UK's major competitors, such as Germany, France and especially the US. As in Korea, British employers did not show much interest in this new apprenticeship system, which did not seem to correspond well with dominant low-price product strategies (Fuller and Unwin 2003; Hogarth, Gambin, and Hasluck 2012). This suggests that 'German-style' vocational training is not compatible with low-price product strategies; and both Korea and Britain might be considered as being caught in 'low skills/low productivity' equilibria (Finegold and Soskice 1988; Lauder 1999).

With the second free election and the victory of the conservative opposition leader Kim Young-Sam (1993-98), however, rather comprehensive changes took place. The new government pursued some far-reaching so-called 'liberalisation' policies changing the face of the Korean political economy. Developmental skills formation continued to decline, and it eventually came to an end – as we observed, more generally, a slow 'death' of the developmental state. The all-powerful Economic Planning Board was abolished, and the financial sector was liberalised allowing firms' entrance into the non-banking intermediaries sector as well as greater access to equity markets and foreign credit. At the same time, industrial subsidies had been almost phased out, largely due to mounting budget deficits. Employers strongly pressed for neoliberal reform; and similar pressure for the liberalisation of the Korean economy came from the US, which became, after the end of the Cold War, increasingly intolerant towards their substantial trade deficit with Korea and the Korean government's protection and control of its domestic market. American pressure to push back the government's strong grip on the economy thus strengthened the position of employers. Importantly, these liberalisation policies (especially, the deregulation of finance) made business (in particular, *chaebols*) less reliant on the state, allowing employers to exercise their voice more assertively in policy-making. With increasingly liberal business preferences, the old developmental alliance between the state and business disintegrated (Fleckenstein and Lee 2017; Kong 2000). In the field of education and training (as in the wider political economy literature), we see the notion of 'post'-developmentalism emerging (Park 2007; Park 2012).

Critically, for developmental skills formation, the government – responding to increasing pressure from employers – abolished the training levy and replaced the compulsory workplace training system with a voluntary system where companies can receive some financial support for vocational training through the newly established employment insurance. The

new system, however, failed to provide any strong incentives for meaningful (initial) vocational skills formation in the workplace but rather facilitated short-term training courses (Yoon and Lee 2009; Lee 2007). Employers not only show incredibly little interest in vocational training in their workplaces but also display little appreciation for vocational high schools and junior colleges. This leads the OECD to conclude very weak involvement of business in VET policy. Acknowledging the challenge of little employer engagement, the government created sector councils for better communication with business, but this initiative failed to produce any meaningful engagement of employers (OECD 2009a). These developments also display great similarities with Britain. Earlier though in the 1980s, the Thatcher government pursued aggressive deregulation policies, including the abolition of Industrial Training Boards, which had the authority to introduce training levies. These changes moved Britain very quickly onto a fairly liberal skills formation regime (King 1997). Dealing with the long track record of low employer interest in vocational skills, Britain also introduced Sector Skills Councils, but these, as in Korea, failed to deliver greater employer engagement (Keep, Lloyd, and Payne 2010).

The abolishment of the training levy system and the accelerated decline in workplace training had huge implications for skills supply. As discussed earlier, in the developmental skills formation systems, large employers trained beyond their demand, and thereby provided 'excess' skilled labour to SMEs. With sharply reduced training efforts, large employers not only reduced the pool of skilled labour for SMEs, but also started recruiting experienced workers from SMEs (especially, from those in their supply chain). This causes major problems for SMEs. These, typically under enormous cost pressure from *chaebols*, not only lack the capacity (in terms of resources and time) to engage in vocational training (or train young graduates from university), but also are faced with an ever greater danger of their skilled and experienced workers being poached by larger companies, with which they cannot compete in terms

of pay and benefit packages. Thus, whilst SMEs increasingly rely on the recruitment of experienced workers to meet skills need, it has become ever more difficult to attract and retain these in the face of *chaebols'* growing interest in experienced workers as well (Jeong 1995; Park 2007). In this context, it does not come as a great surprise that the SME sector has been suffering from skills shortages and that the productivity gap between large companies and SMEs have been growing (OECD 2015).

As part of the government's liberalisation agenda, we also saw significant changes in higher education policy. With the rise of the so-called knowledge-based economy and growing global competition, the traditional Korean education system, emphasising uniformity and standardisation, was increasingly seen as inadequate to nurture creative workforces with diversified skills required in the new economic environment, in particular with the great importance ascribed to high-technology industries for future economic success. Coinciding with the ever greater prominence of neoliberal thinking within the bureaucracy, the Kim Young-Sam government became increasingly susceptible to market-based, supply-oriented solutions for innovation in education and skills policy that were thought to better address the needs of Korea's modernising economy (Ablemann, Choi, and Park 2012; Park and Kim 2014; Park 2013). The very influential Presidential Commission for Education Reform (1994-96) explicitly called for a shift in the government role from "controlling and regulating" to "encouraging and supporting" (Presidential Commission on Education Reform 1996: 83). Also, in its deliberations, the commission, diagnosing the ineffectiveness of the existing education and training system, explicitly rejected the objective of further vocationalisation and abandoned the Roh Tae-Woo government's ambition of increasing enrolment target for vocational high schools; and instead deregulation of the higher education sector was suggested for the expansion of student numbers (Ihm 1999). Following the recommendations of the commission,

higher education experienced changes of an unseen scale during the Kim Young-Sam government to lift the country's skill levels. The deregulation of the strict admission system (with the exception of Seoul in order to prevent further migration to the metropolitan area, and the exception of some subjects, e.g. medicine and teaching) resulted in a massive increase in student numbers. In addition, the government deregulated the establishment of new universities, which resulted in a number of new institutions including 'satellite campuses' of Seoul-based universities (Kim and Lee 2006). Abandoning the interventionist strategy of the developmental state and putting faith into a market-based approach (Kim and Lee 2006; Park 2012), these reforms by the Kim Young-Sam government mark a critical shift away from specific skills formation in vocational high schools and workplaces (as promoted by the developmental state) to a system that more strongly focuses on general skills through the higher education system to promote knowledge-intensive and high-technology industries, especially in the information technology sector (Cheon 2014).

This shift in industrial strategy also needs to be seen in the context of considerable wage increases after democratisation. Often employing militant strategies, trade unions, especially in large workplaces, flexed their organisational muscles and achieved remarkable improvements in pay and corporate welfare (typically in excess of improvements in productivity). This undermined the competitiveness of Korean industry – “stuck between cheap-labour China and high-tech Japan” (Kim 2010: 314). These developments led policy-makers to the conclusion that the country needed to proceed from an industrial to the above mentioned knowledge-based society in order to stay internationally competitive. In this context, the government, with ever greater trust in market mechanisms, stepped back in order to allow *chaebols'* entering of high-tech industries; and business conglomerates then took the 'driving seat' (Lauder 1999; Park 2012).

Also, employers, feeling the pressure from rising labour costs, started pushing for labour market deregulation. In the labour market regime of the developmental state, the government effectively enforced a no-lay-off policy in large workplaces, in addition to prescribing considerable corporate welfare measures. This system of job protection (i.e. de-facto lifetime employment for core workforces) and corporate social welfare allowed residual social policy without much unrest during the period of fast industrialisation. Whilst imposing here some considerable costs on employers, the authoritarian state, repressing organised labour, also enforced wage constraint in order not to jeopardise the competitiveness of Korean industry in world markets (Deyo 1987). Democratisation and globalisation successively undermined this compromise between the state and employers. Business considered labour market deregulation for both insiders and outsiders imperative -- the former to allow corporate restructuring, and the latter for a greater use of irregular workers to reduce labour costs. The first initiatives for labour market deregulation by the Kim Young-Sam government resulted in a reform gridlock with opposing trade unions, but the following centre-left government of Kim Dae-Jung, under the pressure of the East Asian financial crisis, implemented the failed labour market deregulation of its predecessor, which translated into a considerable increase in irregular employment (approximately 35% of all wage-earners according to conservative estimates) – thus amplifying existing dualism in the Korean labour market (Fleckenstein and Lee 2017; Lee 2011). Irregular workers not only receive lower wages, but also face much greater employment insecurity and less social protection (despite some important improvements in social security for outsiders during the Kim Dae-Jung government). The greater use of irregular workers allowed employers reducing more costly internal labour markets. Having said that, labour market insiders also typically had to endure deteriorating pay and working conditions in exchange for job security (Song 2014). These dramatic developments since the late 1990s

have translated into rising poverty rates and income inequality, undermining Korea's previous relatively egalitarian social structure (Chi and Kwon 2012; Park 2010).

The rapid disintegration of the developmental skills formation regime after democratisation suggests that the previous model relied on enforcement by a strong state rather than genuine support from employers – their reluctance to engage in workplace training in the 1980s turned into political pressure for deregulation. Put differently, democratisation resulted in a massive shift in the power balance between the state and business, with *chaebols* exercising their voice most strongly. The dismantling of developmental skills formation and the expansion of higher education were part of wider changes in the Korean political economy, including the deregulation of labour markets with enormous implications for Korea's social fabric. With democratisation and losing control over ever larger *chaebols*, the state saw its steering capacity decline. Developmental skills formation, as the developmental state more generally, have become both economically and politically unfeasible. Instead, Korea moved firmly towards an LME education and skills formation regime, facilitated by more liberal labour market regulation and increasing inequality associated with this. Paradoxically, these developments have partly been the consequence of the state's industrial strategy, namely the creation of national champions that could compete in global markets. In other words, the (developmental) state created colossal *chaebols* dominating the economy, and these conglomerates eventually became too powerful that was incredibly difficult to ignore their demands. Globalisation and cost pressures further contributed to the shifting power balance between business and the state, as employers exploited their 'exit option' from producing in Korea. Unlike the episode of late industrialisation, *chaebols* gained the upper hand. However, developmental skills formation not only experienced huge pressure from business but also from parents with their persistent strong desire for academic education.

Democratisation, Parents and the Outbreak of 'Education Fever'

Whilst authoritarian governments were reasonably successful suppressing academic education, this was no longer possible in democratic Korea with parents aggressively pressing for the educational credentials of their children. With democratization came the greater appetite for more individualistic education, and this further fuelled the transformation of the education system in Korea – driven again by the middle classes, which ultimately thought to use their financial strength to gain advantage for their off-spring (Ablemann, Choi, and Park 2012; Lo et al. 2015). After democratisation, private education expenditure increased considerably – for higher education but also 'shadow education' in so-called *hagwons* (private tutoring institutions) complementing public schooling. Whilst Japan is widely considered the pioneer in private tutoring, where students, typically in *jukus*, receive intensive supplementary education (particularly during school vacations), Korea not only followed the trajectory of its neighbour but shows an even greater extent of private after-school education. Household expenditure for private tutoring has successively increased since democratisation in the late 1980s and has become equivalent to about 80% of public expenditure on primary and secondary education. The nearly 100,000 *hagwons* in Korea employ more teachers than the public education sector and have become the largest employer of graduates in humanities and social sciences. In 2015, private education spending per child hit a record high, with 7 out of 10 children receiving private tutoring and with elementary school children being most reliant on it. Also, not coming with much surprise, we find high-income parents (the top quintile) spending about 8 times as much money on their offspring than the poorest families (the bottom quintile). To access good-quality tutoring, private education is a major force driving domestic migration, contributing to the uneven development between Seoul and the rest of the

country. It also facilitated migration within Seoul to areas with a high density of *hagwons*. Notably, we find a concentration of about 6,000 *hagwons* in wealthy Seoul borough of Gangnam, where the strong presence of private institutes is considered a key reason for rising property prices (Asian Development Bank 2012; Jones 2012; Statistics Korea 2016, 2015; Kim 2010). In light of these observations, it seems fair to conclude the outbreak of “education fever” (Seth 2002) in democratic Korea.

Challenging Confucian explanations, survey data tell us that excessive private spending for tutoring is, first and foremost, driven by the desire to enter prestigious universities for good job prospects. In Korea, it is a widely held belief that the status of the university attended translates, more or less directly, into labour market success. The prestige of university is therefore considered to largely determine later life chances. Unsurprisingly, as with Britain, Korea has a widely accepted university ranking system, structuring university preferences and reinforcing these. Data also show that having fewer children raises parental expectations; and that parents, though to a lesser extent, are concerned about the quality of public schools. Parents also report a perception that their children would experience a disadvantage if they did not attend *hagwons* (Jones 2013). Private tutoring has, obviously, become a social norm, and dominates the lives of young learners.

The assumption that the prestige of the university one attends greatly determines one’s later life chances is confirmed when looking post-graduation labour market success. There is considerable evidence that ‘elite’ universities indeed pay off in the labour market (Kim and Lee 2006), and unsurprisingly two-year junior colleges do not offer great income prospects compared to four-year universities. But we also observe a significant difference between four-year universities located in Seoul and regional universities, and it is noteworthy that the university is more important for labour market success than the academic discipline

(with the exception of a few obvious subjects, such as medicine and business administration). In short, Korea presents a highly stratified higher education system (Park 2015).

Korean policy-makers show increasing awareness of the excessive nature of private tutoring, but only limited measures to contain it were taken (notably, a '*hagwon* curfew' at 10pm, the prohibition of school teachers creating questions for *hagwons*, and public after-school programmes) (Jones 2013; Kim and Lee 2006). However, it also needs to be noted that government has further fuelled the explosion of shadow education when the Kim Young-Sam administration (1993-98) increased the number of so-called 'special purpose high schools' (especially, those with foreign languages specialism), which turned into de-facto elite high schools, effectively demanding private tutoring to access these highly selective schools. More recently, the conservative Lee Myung-Bak government (2008-13) followed in the steps of Kim Young-Sam with a high school diversification programme, which aimed at creating 300 new specialised high schools for greater hierarchy and competition in the schools system (Park 2010). As an alternative to entering the 'race' for these highly selective schools, an increasing number of parents even opts for a more 'extreme' educational strategy – that is sending their offspring overseas for school education at an early age, which is thought to facilitate children's English language development in particular (Lo et al. 2015).

The great desire for academic education has translated into extraordinary enrolment rates in higher education. In fact, nowhere else in the OECD, we see more young people entering tertiary education (OECD 2009b). Education expansion provided the growing Korean economy with highly qualified workers, but the boom of higher education came at the expense of intermediate skills; and we observe 'over-education' causing a severe skills mismatch, in addition to low 'education premiums' for tertiary education by international standards

(Park 2011). Thus, whilst there is considerable evidence that the attendance of certain universities pays off, the overall increase in the number of university graduates outpaced labour market demand, leaving many young people with poor prospects in the labour market (Cheon 2014). In particular, the supply of graduates outstrips the *chaebol* demand for graduates – not only because of the massive increase in higher education but also because of shrinking internal labour markets in *chaebols*, which increasingly make use of irregular workers to reduce labour costs as discussed above. Put differently, the strong preference for employment in large companies and the antipathy for SMEs meets a reality of an increasingly limited capacity of the former to absorb university graduates (Park 2007).

Large companies cope well with this education and training system and in fact find themselves in the comfortable position to ‘cherry-pick’ the best graduates. SMEs, by contrast, struggle with education and training that is thought to prepare for employment in *chaebols*. This “distorting influence” (Lauder 1999: 286) of business conglomerates in the Korean labour market undermines SMEs, which increasingly fail to satisfy their (vocational) skills needs and, accordingly, display poor labour productivity, as discussed in the previous section. We observe a widening training and productivity gap between large companies and SMEs with their large share of irregular workers (Cheon 2014). The considerable private investment in education therefore effectively amplifies skills shortages and the productivity problems in SMEs, as private investment in the Korean ‘winner-takes-all’ labour market is geared towards employment in *chaebols* – with parents pressing for educational credentials of their offspring so that they can enter *chaebol* employment. At the same time, VET is neglected, locking SMEs in a low skills/low productivity equilibrium. Put differently, Koreans mobilise extraordinary private resources for the education of their children, but these resources are not allocated most efficiently from a macro-economic point of view.

However, Koreans' great concern about prospects in the labour market is easy to grasp when looking at the growing dualism in the Korean labour market. Despite less generous conditions than in the past, the best wages and welfare, as well as the greatest job security, are still achieved with large employers (especially, *chaebols*), whereas the employment conditions in SMEs saw much deterioration. Critically, we observe a massive increase of wage inequality, with SMEs' relative wage to that of large employers dropping from about 90% in 1980 to about 60% in the 2000s; Korea Labor Institute 2009). Unsurprisingly, when asked about their reluctances to work in SMEs, a Korean survey reveals that two thirds of respondents mention poor salaries, closely followed by lower job security and then poorer benefit packages (Kim, Kim, and Yun 2012). Also, international survey data tells us that Koreans are greatly concerned about job security compared to their counterparts in most OECD countries. Only 40% of Koreans consider their jobs secure, which presents a considerable gap in comparison to the 'hire-and-fire' labour market of the US and the UK, for instance (with 71% and 68%, respectively). In Japan, whose labour market is often considered rather similar to the Korean one, 61% of employees consider their jobs safe – a more than 20 percentage point gap to Korea (ISSP Research Group 2013). In addition to polarisation between employment between large and small workplaces, we observe a (partly overlapping) core/periphery distinction in terms of regular and irregular employment. Not only have irregular workers a rather short average job tenure of 30 months (compared to 85 months for regular workers), they also paid 36% less than labour market insiders and experience significant gaps in social protection. Accordingly, the intensifying labour market dualism in Korea is widely considered the main driver for the rise in social inequality; and employment status is also closely linked to poverty among the working-age population. Given that irregular employment is rarely a 'stepping

stone' into regular jobs, it might not be surprising that many young people, fearing the 'scarring effect' of irregular jobs, prefer non-employment over these jobs. We find many young people delaying graduation or making efforts of human capital building outside formal education (for instance, overseas language courses). Strong employment preferences for large employers make Korea one of the very few countries where the NEET rate for university graduates is higher than the overall age group of 15-29 year-olds (24.8% as compared to 18.0%) (OECD 2016).

In this context of strongly dualised labour markets and social protection (and the associated rise in social inequality), it might not surprise to observe 'over-investment' driven by the hope to avoid precarious employment, even though (from a macro point of view) much of this investment is inefficient. In other words, anxiety of students and parents in the face of rising social inequality, economic uncertainty and (job) insecurity (associated with globalisation and related changes in Korean society and economy) drives ever more risky private investments in education to succeed in Korea's increasingly 'winner-takes-all' labour market, as the core of well-paid and well-protected labour market insiders has been shrinking.

Conclusions

Starting as early as in the 1990s and with accelerating speed since the second half of the 1990s, Korea moved increasingly towards a liberal education and skills formation regime with the country's great reliance on *general skills* formation at universities rather than *specific skills* formation in the workplace and vocational training schools, which had previously been a defining feature of the developmental regime. Also, as in the liberal political economy of Britain, Korea displays signs of a 'low skills/low productivity equilibrium'. By contrast, in recognition

of the lack of intermediate (vocational) skills, the experimenting with German-style dual training system failed, which also resembles an experience in Britain. Against this background, observed changes in Korea are best described as a path departure from the developmental trajectory towards an increasingly liberal education and skills formation regime, rather than a transformation within the trajectory of coordinated market economies.

Challenging equilibrium-functionalist approaches and related arguments portraying the East Asian financial crisis as a critical juncture, we have shown that these developments started prior to the financial crisis, though it certainly accelerated the rise of the liberal education and skills formation regime. Instead of reducing the explanation to the exogenous shock of the financial crisis, we have argued that the very success of the developmental state undermined its education and skills formation regime, as the state's industrial strategy created powerful *chaebols*, which ultimately challenged the developmental state. We thus find critical endogenous sources for institutional change with important implications for the power architecture of the Korean political economy. As early as the 1980s, it can be seen that employers had not developed genuine support for the skills policy of the authoritarian state. This is rather different from the German experience, where business became a strong supporter of vocational skills formation in workplaces. When the government's authority started dwindling in the 1980s, business could afford not meeting the government's workplace training targets, for instance; and democratisation at the end of the decade allowed an outright 'defection' from the developmental alliance with employers displaying policy preferences resembling their counterparts in LMEs rather than CMEs. Not only the transition to democracy but also economic liberalisation empowered business and undermined the state's coordinating capacity.

Whilst a weakened government in the 1980s, seeking political legitimisation in turbulent times, displayed some though limited responsiveness to parents' great desire for academic education, after democratisation the state could no longer suppress society's drive for ever more education as a means of social mobility or to defend achieved social status. Not only do we observe a massive increase in private education expenditure for tertiary education, but also the rise of shadow education at the level of primary and secondary education, fuelled by dualisation and poor social protection in the country's winner-takes-all labour market. The deregulation of employment protection after the East Asian financial crisis and the associated rise in social inequality amplified the drive for education, showing the strong interconnection between educational strategies, on the one hand, and social policy and societal change, on the other hand.

In both cases, the *defection* of business and parents, a shift in power undermined the state's coordinating capacity. Thus, despite seemingly stable institutional reproduction, the education and skills formation regime of the developmental state presented a very fragile equilibrium that rested upon an uneven balance of power rather than institutional complementarity. Also, challenging equilibrium-functionalist models, these approaches fail to capture that the observed shift in power ultimately produced a *pathological equilibrium* of 'education inflation', skills mismatch and social polarisation. The study of education and skills in Korea therefore suggests that institutionalist political-economic analysis of change needs to take *power* more seriously instead of largely relying on functionalist assumptions of institutional complementarities; and related to this, the predominant literature needs to address how positive reinforcement (as in the case of the Korean economic and education 'miracle') turns into a pathological equilibrium, which is obviously at odds with equilibrium-functionalist

theory. Here, power-distributional approaches offer invaluable insights. For the study of education and skills, the examination of the Korean case illustrates the intimate relationship between education and social policy as well as the labour market and social inequality. This also calls for further research to be fed into the dominant institutionalist political economy literature, where both education and social policy have received insufficient attention.

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