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Abstract

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Keywords

tripartism, economic reform, Singapore, South Korea

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Tripartism and Economic Reforms in Singapore and South Korea

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FINAL DRAFT

DO NOT CITE

Introduction

The purpose of this paper is to examine the impact of peak-level tripartism on economic reforms in Singapore and South Korea. Specifically, the paper attempts to answer the question of whether tripartism alters the pace, the sequence, the mix, or the content of economic reforms or the environment in which the reforms are implemented. It also seeks to obtain evidence on the impact of tripartism on specific measurable outcomes.

Tripartism is defined as the negotiation of national policies between representatives of government, labor and employers associations, as opposed to mere consultation and information sharing between these actors. Singapore and South Korea are chosen for this analysis since they represent the only two countries in Asia in which there is/has been some significant degree of tripartism. We argue that there are important differences in the nature of tripartism in both countries. Not only does tripartism vary in terms of scope, the independence and representativeness of the actors, its degree of institutionalization, its continuity, but also in terms of its effect on various economic and non-economic reforms.

In order to examine the impact of tripartism on economic reforms and outcomes, we proceed as follows. In section 1, we present a very brief overview of economic development in both countries. Section 2 canvasses the historical development of tripartism in each country and outlines its main features. In section 3, we focus on specific cases of the effect of tripartism on reforms and outcomes. Note that these specific cases of the effect of tripartism on reforms or economic strategies are not

perfectly comparable, as they occur during different historical junctures in these nations' development, and reflect particular problems and issues faced by each country. Section 4 concludes.

Although the focus of this paper and the research project is on the impact of tripartism on economic reforms in Asia, these two cases of Singapore and South Korea also permit us to argue that, on a more general level, broadly institutionalized tripartism permits smooth and continuous adaptation. The Singapore case demonstrates the importance of tripartism in shaping the country's ability to continuously adapt to different economic circumstances and shocks with relatively little disruption and relatively little deleterious effect on the well being of its citizens. In contrast, less institutionalized tripartism, as seen in South Korea, represents a limited and temporary ability to cope at a critical economic juncture, in this case the Asian financial crisis. In the concluding section of the paper we speculate on the initial conditions that give rise to different degrees of institutionalization of tripartism in the two countries.

This paper has drawn from prior research, interviews with key observers and actors and data from a variety of sources. While actual socio-economic outcomes such as growth, inequality and social protection are mediated by a number of variables, (and hence more difficult to link causally to tripartism), it is the cases that we examine in section 3 that provide the basis for the argument that tripartism does significantly affect the content, mix, sequencing and outcomes of economic reforms. The next section examines the economic development history of these two countries.

SECTION 1: ECONOMIC DEVELOPMENT IN SINGAPORE AND SOUTH KOREA

The economic development strategies of Singapore and South Korea have received considerable attention in prior literature and it is not our intention to repeat them here. We briefly review the development of both countries, highlighting major features. Those interested in more details must refer to the large list of published works on both countries' development strategies and policies. In particular, see Rodan (1991) and Huff (1987) for Singapore and Amsden (1989) and World Bank (1993) for South Korea.

Singapore

In 1964 the GDP of Singapore was merely US\$4.5 billion with an annual growth rate of 0.6% and a GDP per capita US\$2,453. However, over the past four decades Singapore has fundamentally transformed itself from a “developing” country into a “developed” one. By 2004, Singapore's GDP and GDP per capita had increased to US\$ 102.5 billion and US\$23,636 respectively. Moreover, the trade deficit of US\$651 million in 1964 became a trade surplus of US\$31,210 million in 2004 and the gross domestic savings rate increased from -74% to 48% during the same period. Table 1 shows the major indicators of Singapore's economic growth between 1960 and 2004.

Insert Table 1 Here

A very detailed account of Singapore's economic development can be found in Huff (1987) and Rodan (1991), which are briefly summarized here. Singapore declared independence in 1965 and followed an import substitution industrialization (ISI) strategy in 1965-1967, which was unsuccessful for a variety of reasons. The decision of the British government to withdraw its troops in the late 1960s (British military activity accounted for 18% of GDP) was another blow. And the Indonesian confrontation

campaign of 1963-1966 resulted in suspension of trade with Singapore's major trading partner. It is under these conditions that Singapore began to re-position itself on a path of export-oriented industrialization (EOI) by taking a series of measures to produce the political and economic preconditions for export-oriented growth. Further, on the social front, the state successfully inculcated the "ideology of survival", which demanded of its citizens an entirely new set of social attitudes and beliefs which embodied self-sacrifice for the national interest. The specifics of these social, economic and political preconditions have been extensively discussed elsewhere (e.g. Rodan 1991), but included neutralizing the power of organized labor and reducing wages, substantial infrastructural improvements, providing tax benefits for exports of manufacturing goods, reducing quota and tariff restrictions on imports of equipment, machinery and raw materials, and opening widely the doors to foreign investment, particularly direct investment by multinational companies. Moreover, state control was extended to all facets of the economy to support the EOI strategy. This involved not only the provision of special institutional support, such as the establishment of some public limited companies and statutory boards to enhance industrial development, but also direct government investments (e.g. in the shipbuilding, electronic and petroleum industries) to influence Singapore's industrial structure. In addition, the government was also active in tailoring the education system to the needs of industry. In 1969 six new vocational institutes were established for the teaching of trade skills and the faculties of engineering, accounting and business administration, and building and architecture were introduced to the University of Singapore. Manufacturing for export led to considerable economic expansion (GDP per capita doubled between 1965 and 1972 reaching US\$5,432) and the emergence of the

electrical machinery industry by 1969 more than anything else signified that the EOI strategy of Singapore was successful.

As the growth from EOI eased unemployment and Singapore became dependent on imported labor to fill shortages, the government began to shift its focus from unskilled, labor-intensive production to relatively capital-intensive, higher value-added one. This shift started in the early 1970s and intensified after 1978 when Singapore embarked on the so-called “Second Industrial Revolution”. The new strategy was characterized by a series of state interventions to discourage low-skill, labor-intensive production, on the one hand, and encourage capital-intensive, higher value-added investments, on the other, including significantly raising wage levels, tariff revisions and restrictions on imported labor, generous tax and fiscal incentives for appropriate new investments, dramatic expansions and improvements of social and physical infrastructures, and direct government investments to stimulate favored forms of production. Moreover, the Singapore government also made efforts to expand education at all levels (particularly at the tertiary and technical levels). Essentially, the state ensured that workforce development was closely tailored to the needs of private companies engaged in or moving towards higher value-added production (e.g. a number of institutes of technology to teach specialized and sophisticated skills on a higher technological plane were set up with the collaboration of the German, Japanese, and French governments). See Kuruvilla, Erickson and Huang (2002) for a detailed account of Singapore’s remarkable success in increasing rapidly the skills of its workforce. The state’s success in raising workers’ skills to accelerate industrial restructuring is evidenced by the increase in productivity—between 1973 and 1982 value-added per worker in manufacturing increased from about

one-quarter to almost two-fifths. In addition, due to both its labor cost advantage (in spite of the high wage policy of 1979-81 and rises thereafter), and the stability and flexibility that Singapore afforded to foreign investors, foreign direct investment rose substantially from US\$186 million in 1978 to US\$1,210 million in 1984. Apart from a consolidation of international capital in the petroleum, electronics and non-electrical machinery industries, investment in chemicals also emerged as significant, while investment in Singapore's comparatively low value-added, labor intensive industries, notably textile and apparel, shrank substantially. Such a large-scale movement of foreign investment played a key role in Singapore's industrial restructuring towards higher value-added production. By 1983, Singapore was well on the road to "development" with a GDP per capita US\$10,253, more than threefold that of 1967.

Since the mid 1980s, Singapore has entered a service-based economic development stage (Kuruvilla 1996) that derives largely from the growth in several service industries, such as transport and communications, banking and financial services, and others such as ship repairs. In particular, the economic development goal was to establish Singapore as a "financial supermarket," a regional center for sophisticated financial services. By 2004, Singapore had, to certain extent, successfully realized its ambition as an advanced economy with a leading position in production and services.

It is important to understand the political context in which this rapid economic development has taken place. Although a democracy, the ruling party PAP (People's Action Party) has held a tight grip on power, both through the legitimacy derived from producing economic gains for the population, as well as the design of an electoral system that has effectively prevented the development of a coherent opposition. Furthermore, a

highly technocratic government has promoted support for its policies through its effectiveness and through a series of very successful government public education campaigns designed by its psychological defense unit. Its President for much of its development history, Lee Kuan Yew, had a low tolerance for dissent or criticism, although he promoted the consensual form of decision-making that has evolved into the tripartite model today.

South Korea

After the Korean War (1950-1953), South Korea ranked as one of the poorest countries in the world and was almost entirely dependent on U.S. aid. By 1960, after some of the damage of the war had been repaired, South Korea's GDP reached US\$3.9 billion while per capita GDP was only US\$160. However, by 2004, South Korea had become a developed country, a member of the OECD, with a per capita GDP of US\$14,136, and total GDP of US\$679 billion. Also, the trade deficit of US\$273 million in 1960 became a trade surplus of US\$31,210 million by 2004. Table 2 clearly shows the remarkable progress South Korea had made between 1960 and 2004.

Insert Table 2 Here

We will briefly describe South Korean economic development strategies here (see Amsden 1989; Harvie and Lee 2003; World Bank 1993 for more detailed accounts). South Korea's unprecedented economic growth started in the early 1960s when the government shifted its development strategy from ISI to EOI by pursuing active, comprehensive policies of trade reform and export promotion. Exporters were supported with beneficial exchange rates, extensive direct export subsidies, tax benefits, tariff exemptions, preferential credit and loans through the state-controlled banking system,

and exemptions from import controls. In addition, export targets were agreed upon between the government and individual firms, and firms that failed to achieve their targets ran the risk of heavy administrative sanctions. The government also took policies to encourage inflows of foreign capital to compensate for the insufficiency of domestic savings. The EOI strategy resulted in not only rapid economic growth and structural changes but also increases in employment, income and savings. However, the forced expansion of exports led to a high and rising debt-equity ratio and distortions in firm internal decision-making. And from the early days of South Korean economic development, a relationship based system developed among firms, banks, and the government, which exists even today (Harvie and Lee 2003).

To increase South Korea's competitiveness in the world market, in the early 1970s the government shifted its focus to the promotion of new strategic export industries and import substitution of intermediate inputs and capital goods by employing all its levers to steer resources into specific sectors to rapidly alter the industrial structure. Massive investment programs were introduced to promote heavy and chemical industries (HCI). Particularly, steel, heavy machinery, automobiles, industrial electronics, shipbuilding, non-ferrous metals and petrochemicals were classified as strategic, receiving generous government support including tax incentives, subsidized public services, and preferential financing. Other policies and measures such as government ownership, subsidization of many financial institutions, and mechanisms for mandatory saving were also used by the state to facilitate such promotion. During this HCI drive period, industrial conglomerates (chaebol) also experienced rapid growth and diversification leading to the rapid transformation of the South Korean industrial structure and to market concentration. As

Harvie and Lee (2003) noted, the share of manufacturing output of the twenty largest groups increased from 7 percent to 29 percent in 1972-1982, and the ten largest chaebols accounted for 48 percent of GNP by 1980. However, the big push for HCI also resulted in huge excess capacity in these industries, accumulation of non-performing loans in the financial sector and large-scale debts.

In the mid 1980s, South Korea's economic development focus shifted from HCI promotion to economic stabilization and liberalization with the aim of establishing an unbiased incentive structure, promoting competition, and preventing big business dominance in the market. Former preferences for specific industries were reduced, and a series of measures were taken to promote trade and financial liberalization, market opening, the development of small and medium enterprises, and technological upgrading. South Korea's economic development during the 1980s and much of the 1990s has been remarkable, and only interrupted by the Asian financial crisis.

The political context in which much of this rapid economic expansion took place was clearly autocratic, with military dictatorships persisting until 1987. Given the lack of opposition, the government combined with selected private companies to provide the average South Korean with rapid increases in his/her standard of living. Democratization in 1987 has fundamentally changed its approach to governance, however, although the efficiency that marks the South Korean approach to government is still apparent.

Summary

Both Singapore and South Korea have experienced remarkable economic growth mainly through the employment of an EOI strategy since the 1960s and have successfully

transformed themselves from developing countries into developed ones. There are some commonalities in their paths. Particularly, both countries are good examples of state-led development. The state has played a strong role as facilitator, initiator, and employer in the economic development process. In Singapore, the state's control over significant corporations (e.g. Singapore Airlines, Temasek) continues, while South Korea has embarked on privatization after the financial crisis.

A comparison of state-led development and market-led development is instructive here. Jeanette Park (2004) notes in comparing South Korea with Chile:

“To illustrate the comparative benefits of the state-led over the market-led approach, South Korea and Chile may be compared as two respectively prototypical countries. In 1970s, South Korea was beginning the implementation of its state-led development policies, while Chile was pursuing its radically free market agenda under dictator Augusto Pinochet. Comparatively, the two ranked close in terms of economic and political development, with Chile probably slightly better off in terms of economic capacity. In 2002, thirty years later, South Korea's gross domestic product per capita (GDP) was nearly double that of Chile (US\$19,400 vs. US\$10,000) and Chile had a poverty rate about five times higher than that of South Korea (21 percent vs. 4 percent). More significantly, South Korea's current technological and industrial capacity is many times greater than Chile's, which actually experienced de-industrialization under the free-market-led policies.¹

This dramatic difference between the two countries arose from South Korea's ability to improve its comparative advantage in the world market by building industries in sectors that were not necessarily comparatively advantageous at the time of development. State support allowed these new industries in steel, automobiles, and electronics to develop and strengthen. In contrast, when Chile entered the free international market in the 1960s, market forces pushed the economy to play to its current comparative advantage, which at that point in Chile's development lay mostly in raw agricultural goods. At least a part of Chile's de-industrialization was due to the inability of existing industries to compete with the influx of foreign products and the inability of new industries to emerge because of a lack of protection during their vulnerable emergent stages. If South Korea had pursued radically free-market policies in the 1970s, it is highly unlikely that it would be ranked as a newly industrialized country today. Lacking the abundance of natural resources of Chile, South Korea would have probably depended on trading in the international economy its cheap labor and some

¹ Note that Park's figures differ from those in our Table 1 for Korea. This is because Park obtained the data from the World Factbook, which used purchasing power parity rates in calculating GDP, while the figures in Table 1 use constant US dollars.

light manufacturing goods, the two being their primary areas of comparative advantage in the immediate post-Korean War years”.

SECTION 2: ORIGINS AND DEVELOPMENT OF TRIPARTISM IN SINGAPORE AND SOUTH KOREA

Singapore

As Wong (2004) notes in her paper, tripartism is pretty well institutionalized in Singapore. Apart from the flagship tripartite national wages council, many statutory boards and institutions in Singapore have tripartite governance structures of varying intensity built into them. Tripartism is evidenced in the governance of key institutions such as the Economic Development Board (EDB), the Productivity and Standards Board (PSB), the Central Provident Funds (CPF), the Institute for Technical Education, and higher educational institutions. As the General Secretary of the National Trade Union Congress (NTUC) and Minister without Portfolio in the Singapore government observed in a 2001 speech: “Tripartism is thus a major competitive strength of Singapore which must be preserved and protected” (Lim Boon Heng 2001). He also noted that: “tripartism involving painstaking consensus building has enabled tough decisions and long-term development strategies to be implemented.” Tripartism appears firmly ensconced in the national “lexicon” of Singapore. For example, the Minister of State for education, Mr. Chan Soo Sen noted in 2004: “We have shown a unique spirit of solidarity and resilience through tripartism, with the government, employers and the labour movement working together, consulting each other, working out and implementing measures to restructure and reposition our economy, while aiming for win-win” (Ministry of Education 2004).

What accounts for the rise and continued popularity of tripartism in Singapore? We argue that an understanding of tripartism requires a historical perspective, particularly

regarding the development of the relationship between the trade unions (now represented by the NTUC) and the ruling PAP in Singapore.

The political struggle between the communists and the British (Leggett 2005) was converted into a struggle between the leftists and the moderates within the PAP when it came to power in 1959. Wong (2004) notes that over half of the founding members of the PAP in 1955 were trade union members and 90% of the people present at its inaugural meeting were trade union members. The disagreements between moderates and leftists (over the merger with Malaysia), forced a split, with one faction forming a new political party, the Barisan Socialis (BS), headed by Lim Chin Siong. This faction involved about 6 of the top 10 NTUC leaders and 12 out of 40 members of the Singapore assembly. The union leaders took 43 unions out of the NTUC to form a new labor federation, the SATU (Singapore Association of Trade Unions). By 1963, the battle lines were firmly drawn between the two parties (and the union federations). The PAP labeled the BS and SATU as communists.

When the PAP convincingly won the 1963 elections, it attacked the so-called “communists”, using the internal security ordinance to arrest many of their leaders in an operation famously known as COLDSTORE, while the registrar of trade unions refused to register SATU as a federation and the registration of various SATU unions. This “administrative” attack was devastating, as trade union membership declined from 189,032 in 1962 to 142,936 in 1963. With the elimination of SATU, the PAP then proceeded to create “a responsible” trade union organization through union restructuring and redefinition (Leggett, 2005), sponsoring the NTUC. A former leftist, C.V. Devan

Nair brought all of the unions under the NTUC and into a coalition with the PAP (Leggett 2005). Ali Raza (1970) provides a more detailed account of these developments.

By 1965, the government, employers and the NTUC had signed the charter of industrial progress (a forerunner of tripartism) that called for a concerted effort to raise productivity in the new export-oriented manufacturing industry. Joint productivity councils were established in every enterprise. And the state exhorted the unions to restrict their demands for high wages, and in certain “pioneer” industries, the government wanted the unions to sign 3 year contracts rather than 2 year contracts. Of a total of 130,000 union members in 107 unions, the NTUC accounted for 41 unions, but a majority of the members (100,000). Since the government had given “moral, political, and financial support” to the NTUC, it expected “good behavior in return,” including active support in its efforts to lower costs to allow foreign employers to get a reasonable return on their capital, or else they will go elsewhere (Ali Raza 1970:229). Prime Minister Lee Kuan Yew, in his opening speech at the 4th delegate conference of the NTUC in 1967 noted that foreign investment would go to places “where unions are led by men who understand just how far they can go without crippling or killing the goose whose eggs they want” (Ali Raza 1970:231).

The efforts to create responsible trade unions were buttressed by legislation that reflected the government’s pre-occupation with stability to attract foreign investment. The Industrial Arbitration Court (IAC) was established, with wide powers to “cognize” collective bargaining agreements (and to refuse to “cognize” agreements that were inimical to Singapore’s competitive position), apart from having the final word on disputes. The employment act prohibited strikes while a dispute was under consideration

of the IAC, and matters concerning transfers, promotions, and job assignments were clearly established as management rights issues. The industrial relations amendment bill of 1968 confined terms and conditions of service in a collective bargaining agreement to those prescribed as minima under the employment act of 1955. Stability had been achieved; the number of industrial disputes fell sharply, as did trade union membership. The government, being the largest employer at that time (30% of the workforce), also ensured a cap on real wage increases. Meanwhile, it launched what is now known as the 1969 modernization seminar, which crafted the deal for labor-management collaboration and a shift away from adversarial industrial relations, and for the NTUC, a broader role in society beyond collective bargaining. Unions were strengthened with the government's agreement to permit "dues check off" (Wong 2004). In later years unions also developed, with government assistance, a major new role for themselves delivering services through the cooperative movement, which provides goods and services at affordable rates for workers--e.g. supermarkets, insurance, holiday homes, childcare and eldercare.

As is evident from the above discussion, two issues are particularly important. First, the PAP was successful in carefully redefining the scope and purpose of trade unionism in Singapore through its intervention in the NTUC. As Ali Raza (1970) notes, as long as the PAP is in power, the NTUC can depend on the government for money, moral support, and in dire cases de-registration of its rival unions. Second, there is the close connection between PAP leaders and NTUC leaders. NTUC leaders have consistently thereafter talked about the NTUC-PAP symbiosis (Leggett 2005). To what extent this is a "meeting of the minds" of "equals" through the effect of the "modernization" seminar, or a direct subjugation of the NTUC by the PAP is an open

question. It is true that in later years (Leggett 2005), the PAP has intervened in NTUC's leadership issues (effectively replacing Lim Chee Onn as General Secretary in the early 1980s with Ong Teng Cheong who was more unitarist). A reading of the evidence (that follows in the case studies) shows that over the years, the tripartite governance system does, in fact, reflect the interests of all three parties.

By the end of the 1960s and the early 1970s, the export-oriented industrialization program had borne fruit. Foreign investment was booming, and GDP had almost doubled from S\$3,970 million in 1968 to S\$6,279 million in 1971,² while unemployment declined from 7.3% to 4.8% during the same period (Chew and Chew 1998). With the economy almost at full employment, labor shortages arose in both skilled and unskilled arenas, although the government tried to ease the situation through the importation of foreign workers as well as encouraging people to work longer hours. The government was quite concerned that rising wages and labor shortages would check industrial growth. When these temporary measures did not work, and the tightness in the labor market made it impossible for voluntary wage restraint on the part of the unions, the government announced the formation of a tripartite wage forum to establish a national wage policy for the economy.

The NWC (National Wages Council) was established as an advisory body to the government and an income policy was formally introduced in February 1972. The general terms of reference to the NWC were a) to assist in the formulation of general wage policy; b) to recommend necessary adjustments in wage structure, with a view to developing a coherent wage system with long-term economic and social development; and c) to advise on desirable incentive systems for the promotion of operational

² Note that these figures are in Singapore dollars, while the figures in Table I are in US dollars.

efficiency and productivity in various enterprises (Liang 1988). The NWC is composed of five representatives of employers, five representatives of unions, and four representatives of government. The representatives of government include the permanent secretaries of the Ministries of Finance, Trade and Industry, Manpower, and the Chairman of the EDB. The Chairman of the NWC is a university professor (the first Chairman was Professor Lim Chong Yah, the current Professor Lim Pin). Chew and Chew (1998) suggest that the NWC has nurtured the ideology of accommodation and cooperation in Singapore generally, and it has helped promote the setting up of other tripartite institutions. More importantly, they claim that the NWC has promoted stable industrial relations. We will examine the NWC as one of the cases of tripartism in action in greater detail in the next section.

Characterizing Tripartism in Singapore

Changing Scope Tripartism in Singapore was limited in scope at the beginning: “The objective is to have an orderly annual wage adjustment, which takes the form of a real wage increase” (Yah 1998:28). From that relatively narrow scope in 1972, the objectives of the NWC have changed radically over time to reflect a broader view of its mandate (e.g. a focus on productivity and flexibility in the 1980s), and in practice, the NWC has been used for various restructuring goals of the Singapore government (these are discussed in greater detail in section 3). Besides, tripartism has grown beyond the NWC to other institutions and currently its overall scope is wide, concerning all matters of economic and social development, and has crept into common parlance on a day-to-day basis. As Wong (2004) notes tripartism has permitted trade union participation in a number of other economic and industrial institutions. Notably, these are most of the

important institutions governing economic and social development in Singapore. In addition, tripartism, and labor participation in NATIONAL economic decisions, is legitimated by the appointment of the General Secretary of the NTUC as a Minister without portfolio in the cabinet.

Clearly Singaporeans see tripartism as having a broad scope. In an interview in 2001, Lim Boon Heng suggests:

“Tripartite representation is the norm, as exemplified by key bodies such as the National Productivity and Quality Council and the National Wages Council, and in the composition of the Boards of Directors managing key economic agencies such as the EDB, JTC, the Productivity and Standards Board and its advisory committees. Through such participation and deliberations, we have introduced several new initiatives under the Productivity Movement. These included schemes to encourage better company welfare such as the Company Welfareism through Employer's CPF Contributions or COWEC Scheme; the institution of joint labour-management consultation committees; and encouraging company stock option schemes. At the workforce level, the labour movement has been in the forefront to encourage workers to train for employability and to work with management to focus on achieving business excellence through the Integrated Management of Productivity Activities Programme or IMPACT. The National Trades Union Congress (NTUC) even has a Productivity Department, actively promoting productivity. Three of my union colleagues serve on the PSB Board.”

And it is clear that tripartism is alive and vibrant even today. In 1998, for example, the new Manpower Policy (involving integrated planning, life-long learning and employability, national skills recognition systems, recruiting foreign talent, redefining

partnerships, improved work environments, and improved labor market information) was developed on a tripartite basis. In March 2005, for example, the government announced the Tripartite Job Re-Creation Program of REAP (Redeployment Assistance Program).

Encompassingness and Representativeness The NTUC is the only labor federation in Singapore. It currently represents 63 unions (out of the 66 registered unions) consisting of 470,000 members in Singapore at the current time, accounting for 97% of the labor movement. In that sense, it is broadly representative of the trade unions in Singapore. Whether it is broadly representative of labor and employees in Singapore is an open question, as Singapore's union density figures are quite low (less than 16%), with collective bargaining coverage figures hovering around 18% in 1995. The SNEF (Singapore National Employers Federation) is the only employers federation in Singapore that exists for the purpose of tripartite collaboration and representation on industrial relations issues, broadly defined. The current SNEF, which has about 1,847 members (employing over 450,000 people), represents a 1980s merger between the National Employers Council and the Singapore Employers Federation. SNEF's key objective, as stated on its website, is to strengthen the employers' role in the tripartite partnership (www.snef.org.sg).

Continuity and Institutionalization Tripartism has been in existence since 1972 in the shape of the NWC and has only grown in prominence, as noted above. And the number of institutions that are governed in some form of tripartite manner has increased over time. Officials publicly (and continually) tout the advantages of tripartism, while important leaders speak about tripartism and the dividends that it has brought. It is a key concept discussed on almost every Singaporean institution (labor, management, and

government) website. For example, on the website of the Singapore Manual and Mercantile Workers Union, one of the larger unions in Singapore, its secretary general, John De Payva writes: “as SMMWU, we actively promote tripartism to ensure a better standard of living for our workers” (www.smmwu.org.sg). And the website of the employers, SNEF says: “our key objective is to strengthen tripartism” (www.snef.org.sg). There is interaction between the tripartite actors on a regular basis in the various tripartite institutions. And as the evidence on the cases below will suggest, tripartism has had an impact on national economic decisions. It is also clear that the government values it highly. During the dispute between Singapore airlines and their pilots in 2003, Acting Manpower Minister Ng Eng Hen warned that the government had to protect the culture of tripartism (Asian Labor News 2003).

Further, a number of today’s current problems are left to high-level tripartite “task forces” to resolve. For example, a tripartite committee has been studying ways to keep older Singaporeans in the workforce (Halima Yacob 2006). The positions of unions and employers were quite different on this issue. The unions argued that employers must change their attitudes towards the employment of older workers. Employers countered that older workers must be more adaptable, if they are to change their attitudes. The government chipped in a fund of S\$30 million to provide incentives for employers to retrain older workers. The unions also argued that the retirement age should be increased from 62 to 64, which would give workers more time to contribute to their CPF pension savings. Although the employers were reluctant (they wanted to reduce wage costs), they reached a compromise ...those workers over 62 who wanted to work until 64 were given the option to do so, and their case would be negotiated at the plant level. Most

importantly, the employers agreed to the unions demand for training of older workers. Another example is the tripartite committee on low-income workers. Tripartite solutions reached include a housing grant for first-time buyers, increased subsidies for childcare, and a special cash payment to low-income families (Halimah Yacob 2006).

In summary, tripartism is quite deeply institutionalized as a governance mechanism in a variety of national economic institutions.

South Korea

Although South Korean tripartism is very closely associated with the Asian financial crisis (the social pact of 1998), there has been a history of failed efforts to create tripartite dialogue in South Korea. The economic planning board proposed a national wage council after the high wage increases of the post democratization years, but this was not supported. Later, the KTUC (a pre-cursor to the current KCTU), which was illegal at that time, proposed the formation of a National Economic and Social Council, which was formed and had a limited role, but did not address issues of wages. The presidential commission on industrial relations reform, established in 1996, invited the then illegal KCTU to join a tripartite process to discuss the future of labor law. This commission discussed various issues regarding labor law reform, but its recommendations were ignored by the government, which went on to craft its own legislation. The government's new labor law legalized multiple unions (although it suspended its introduction for 3 years), allowed political activity by unions, removed the prohibition of third party involvement in industrial relations and legalized the KCTU as a union federation (with effect from 1999). However, it did not please employers and unions. From the employer perspective, the revised labor law did not provide sufficient flexibility (particularly the

right to retrench workers). For unions, the law did not go far enough in extending the right to freedom of association to groups such as teachers and government employees. This by-passing of the commission, met with strikes and protests by labor leaders, leading to the decline of what was the first effort at tripartism in South Korea.

As is well known, the Asian financial crisis sparked a more serious effort to create a tripartite arrangement in South Korea. What started out as an exchange rate crisis mushroomed into a full blown macro-economic crisis, bringing to light a number of structural weaknesses in the South Korean economy, notably in terms of financial transparency, corporate governance and the need for labor market flexibility (Harriss 2002). When South Korea approached the IMF for relief, the IMF's structural adjustment plan involved the enactment of tight monetary-fiscal policies, reform of corporate governance and labor market flexibilization, amongst other things. Harriss (2002) suggests that: "President Kim Dae-Jung, in order to allow the rapid change in expectations of the role of the state in economic crisis to come from a social consensus, created the European style tripartite consensus." It is fair to note that there are multiple views about the genesis of the social pact. Some observers suggest that it was largely the brainchild of president KDJ, while others suggest that it was mooted by the KLI (Korea Labor Institute), and still others point out that the idea was also mentioned by leaders of the KCTU sometime earlier.

It is also important to understand the sequence of events and the different and changing motivations of the parties to support the social pact. When the idea was first discussed in January 1998, both FKTU and KCTU were broadly supportive of the idea of policy consultation to deal with the crisis. During the 25 days of discussion in January it

gradually dawned on some KCTU leaders that an agreement that legitimized layoffs would be difficult to implement, but they still agreed to the social pact. At the KCTU delegates meeting on February 6th the delegates disagreed with the leaders and voted them out. The new leaders then led a wave of strikes to protest against the social pact.

Thus, the idea of a social pact, which was supported in general by the leaders of all the groups, was actually terrain that was highly contested within groups. During the period from February to August 1998, much intra-organizational conflict and debate ensued within employer and union federations. As Baccaro and Lim (2006) note with the KCTU, white-collar unions wanted to participate in the tripartite commission because they wanted a seat at the table regarding issues relevant to them, i.e., banking and public sector restructuring. Large-company unions from both FKTU and KCTU grew increasingly opposed given that labor market flexibility (and the ability to layoff) was already agreed upon. The South Korean employers had no option but to join the tripartite agreement as they had no political support, and were seen by many as one of the primary causes of the crisis (Harriss 2002). However, Lee (2006), a member of the tripartite commission, notes that the initial differential interests within the labor movement only lasted for some time.

Characterizing South Korean tripartism

Scope The first tripartite agreement entered into during February 1998 was a social pact of far-reaching proportions. Harriss (2002) suggests that when the Government of President Kim Dae-Jung established the tripartite commission it was initially conceived of as a forum for the exchange of views regarding how to move forward out of the crisis. In the words of a recent chairman, Dr. Hong Shin, the commission was “a social

consensus-building institution grounded upon president KDJ's national policies of the parallel development of democracy and market economy" (Harriss 2002).

However, in real terms, the social pact that it reached was extremely wide in its scope. Although its focus was on five issues (preparation of a new framework for labor-management relations, an agreement on welfare, growth and employment, wage payments for full-time union officials, reducing working hours per week to 40, and eliminating unfair labor practices), the final agreement reached on February 1998 was far in excess of these narrow topics. The scope of the social pact was wide, covering all aspects of the economy. Table 3 provides a list of the major topics, but it is important to note that each of these items had a long list of subtopics, over 90 in all. For a detailed listing of all sub-items, please see www.lmg.go.kr.

Insert Table 3 about here

Continuity and Institutionalization Despite the wide scope, South Korean tripartism does not appear stable or long lasting. Almost immediately after the agreement, the KCTU was unable to sell the pact to its delegates who voted against it by a huge margin: 184-88. KCTU's top leadership was thus forced to resign, and the KCTU commenced a wave of strikes in opposition to some of the pact's articles. The government reached an agreement with KCTU to re-start tripartism in June 1998 (called the second tripartite commission), where the objective was to formulate detailed action plans on the various items in the social pact of February 1998. During this period, however, there was a steady increase in unemployment, from 2.5% before the crisis to 9% by the end of 1998 and early 1999.³ In the 12 months preceding early 1999 the registered unemployed ranks

³ These data differ slightly from the data in Table I. The data in Table I are annual averages, while these are monthly figures.

rose by 1.3 million (Lee and Lee 2002). In 1998 alone, the manufacturing sector shed almost 600,000 jobs (Lee and Lee 2002). Actual employment dropped by 2 million since the beginning of the crisis. As the crisis wore on, it became apparent to workers that labor was going to bear much of the adjustment costs, particularly as banks and some large firms restructured their businesses. The banking sector reduced their workforce by as much as 32%. Faced with the assault on jobs, the KCTU continued its wave of strikes and by early 1999 formally withdrew from the tripartite commission.

Meanwhile, the government had “institutionalized” the South Korean tripartite commission through legislation. This form of “institutionalization” did not provide the commission with any greater legitimacy, however. The KCTU was still formally “out” and it was clear that the employers (the KEF) were increasingly showing signs of wanting to “sabotage” the agreements. Harriss (2002) in his interviews with various members of the tripartite commission notes further that: “discussions within the tripartite commission apparatus indicated that the government’s representatives had little respect for organized labor as an institution and even less tolerance for its representatives on the TC”. Thus, although the tripartite commission continued its work (with the KCTU absent) and reached several agreements, especially the second social pact for job creation in December 2003 (with detailed agreements on 55 different items), there was a sense that much of this was orchestrated by government with relatively little input from labor (the FKTU was involved, and its voice heard, but played a relatively passive role).

Encompassingness and Representativeness From the perspective of encompassingness and representativeness, it is hard to call South Korea’s tripartite commission representative. South Korean union density in 1997 was only 11.7%, while collective

bargaining coverage was about 17%. However, this low level of union density masks some differences. Union density in firms employing less than 100 employees was only 1.1% in 2000, while union density at firms employing more than 300 workers was 70.9% (Lee and Lee 2003). Note that Baccaro and Lim (2006) report slightly different figures for union membership by size of establishment. However, the general conclusion that South Korean unionism is a large-firm phenomenon is inescapable (Kuruvilla 2006).

Besides, since the KCTU was effectively “out” of the tripartite commission, it means that a significant number of trade union members were not represented. Lee and Lee (2002) suggest that FKTU has 4,501 unions representing 888,000 members approximately. The KCTU has many fewer unions (1,341) but they represent about 570,000 members. Thus, 40% of labor union members do not have their voices heard in the tripartite commission. The FKTU also opted out of the tripartite commission in 2005, effectively bringing its short life to an end. The September 5th meeting of the tripartite commission (its 37th meeting) was attended by no union representatives.

However, the saga is not over yet. Tripartism has been revived, yet again, in April 2006. The Chairman of the tripartite commission opened a plenary session that was attended by the KEF, FKTU and the representatives of the government (but not the KCTU). The agenda for the tripartite commission for 2006 is impressive, including follow-up measures for the establishment of legislation on non-regular workers; methods to improve systems for job creation in an aging society; ways to rationalize the bargaining system in the era of multiple unions (the above three agendas were decided at the Labor Relations Sub-Committee), building and activating local employment and human resource development systems; ways to activate the retirement pension system;

ways to strengthen the link between industrial demand, and education and training (above three decided at the Economy Sub-Committee); ways to rationalize government financial support for health insurance, introduction of a basic pension system to resolve the blind spot of the public pension system; ways to resolve the structural imbalance between the national pension and the pension for special occupations (above three decided by the Social Sub-Committee). In addition, 7 agreements, entered into last year were finally processed at this meeting.

Therefore, from the perspective of representativeness, continuity and institutionalization, South Korean tripartism is considered by many to be a failed experiment. Harriss (2002) notes that at its inception, the tripartite commission worked well, since the country was in crisis, and the urgency for cooperative action was clear. However, as the crisis wore on, it became increasingly clear to organized labor that it was burdened with a large share of the adjustment. Others have argued that labor had relatively little voice in the evolution of labor policy, especially labor market flexibility since it was part of IMF conditionality. Joohee Lee (2004) argues that the prospects for the tripartite commission are not very bright, because it does not have an institutional and bargaining structure to support it. She argues that the success of the social pact will depend heavily on whether large-enterprise unions will comply with the promises made at the national level. However, she also notes that national and industry federations (such as the FKTU or KCTU) have always lacked authority over their member unions, especially in bargaining. Therefore, in her view, an essential building block of tripartism, an appropriate union and bargaining structure, is absent. BH Lee (2006) argues that weak union leadership, changing internal union politics and the lack of an appropriate structure

is a key problem. A key question that is raised by these developments is the issue of how we evaluate the tripartite commission's work and effectiveness. On the one hand, the KCTU is still out. On the other hand, there are several agreements that are being completed here that could be seen as beneficial for the long-term development and restructuring of the South Korean economy after the financial crisis. Thus, although tripartism is a failure when viewed from the perspective of representativeness, it is also important to examine the impacts of the tripartite commission or rather, its effectiveness, in the context of the economic crisis, and the ability of the commission to generate policies that are beneficial to South Korean society, even if one union representing a significant minority of South Korean workers is absent. We turn to the issue of examining the connection between tripartism and economic restructuring in the next section.

SECTION 3: THE EFFECT OF TRIPARTISM ON ECONOMIC RESTRUCTURING: CASES IN SINGAPORE AND SOUTH KOREA

Singapore: Cases of Tripartism and Economic Restructuring

Singapore Case 1: The 1972 Oil Crisis

Table 4 presents the basic macro-economic picture before, and after the oil crisis.

Insert Table 4 about here

As Table 4 suggests, Singapore experienced the fate of all oil-importers. The oil crisis impacted Western economies in two ways (Euronavigator 2005): it severely exacerbated inflationary trends (the annual inflation rate in the UK soared to 20 %), and it siphoned off part of the wealth of all oil-importing countries, causing enormous budget deficits. In Western Europe, industrial production declined, impacting on traditional

sectors such as textiles, shipbuilding and steel, and unemployment rose, although some countries managed better than others. Singapore was also hit by the crisis, with rising prices, especially of food, which it imported completely. In response, the NWC first shortened the collective bargaining agreements from its fixed 3-5 years to 2-3 years, allowing some movement in wages. Further, the NWC also recommended wage increases over and above what was agreed upon in the existing collective bargaining agreements. Both these allowed the injection of greater flexibility in the system, while compensating employees for the rises in prices. In addition, the NWC, as an emergency response, recommended a S\$25 per month increase for every employee. Since the average wage in Singapore was approximately S\$360 per month, this represented a 6% increase. Finally, in 1974, the NWC recommended a second extra increase using a S\$40+6% formula, in effect an increase of 17%. Table 5 shows the impact of these effects. Although there were real wage declines in 1973 and 1974, the declines were not by much, and by 1975 there were increases in the real wage. Thus, workers standards of living did decline in the aftermath of the oil crisis, but not by much, compared to the rest of the world, and real wages revived much faster as well.

Insert Table 5 about here

Singapore Case 2: Tripartism and Economic Restructuring

By 1978, the government's economic development policies had resulted in considerable economic growth. Unemployment had fallen from a high of 4.7% to 3.6%. Labor productivity was high, as was the balance of payments situation, with foreign reserves growing at 27% over the previous year. Foreign direct investment into Singapore

continued to be high. The industrialization program was still labor intensive, however, and labor shortages were becoming apparent (Tan 1997). At the same time, Malaysia was becoming a preferred destination for low-cost electronics manufacture and China began opening up its Southern coast to foreign investment in 1978. Furthermore, Taiwan and South Korea were also more competitive than Singapore in light industrial manufactures.

Under the circumstances, there was some degree of consensus amongst policy makers that economic restructuring towards higher value-added manufacturing was necessary (Yah 1998), since that was the only way to differentiate Singapore's competitive advantage from those of other South and East Asian nations. And it must be done in ways that did not suddenly catapult Singapore as a high labor cost nation either. There had been much discussion regarding the use of the tripartite national wage council in economic restructuring, especially between the Chairman of the NWC, Lim Chong-Yah, Albert Winsemis (Economic Advisor to the government) and the Chairman of the EDB, Mr. Ngiam Tong Dow. It was only after 1976 that the NWC was able to direct its focus to economic restructuring (Yah 1998). This tripartite mechanism was employed to move the economy up to higher value-added production and investment.

In order to drive out low-cost investors and producers, the NWC recommended double-digit wage increases for 1979-1981. Nyau and Chan (1982:461) describe this as follows: "the NWC recommended wage increases of 20% and 19% in 1979 and 1980 respectively, apart from recommending additional productivity linked bonuses of 3% for good performers." These high wage increases helped drive out low-cost producers (Rodan 1991:145; Kuruvilla 1996). Simultaneously, the EDB granted generous fiscal and financial incentives to induce manufacturers to automate and engage in more capital-

intensive investment. The government also increased the incentives for training, by establishing a skills development fund that required firms to contribute 4% of their wage bill, which could be recouped if they engaged in training. A key focus of the skills development fund was to encourage automation, mechanization and robotization, with the long-term objective of increased capital intensity. As Chew and Chew (1995) suggest, several policy changes were introduced to meet the needs of higher technology and capital-intensive investors. The education system was restructured in 1981. The new curricula emphasized secondary education, several vocational training institutes and polytechnics were opened, and a new university (the Nanyang Technical University) was established to provide foreign investors with skilled labor (Begin 1995).

These high nominal wage increases did not translate into high real wage increases, since workers take-home pay was only increased by 3-4% during the 1979-1981 years (Yah 1998). Rather, the significant portion of the wage increases was siphoned into the CPF (Central Provident Fund). The employees' CPF contribution rate was increased from 16.5% to 18%, and then to 22% in 1981. The employers' contribution was also raised from 16.5% in 1978 to 20.5% in 1979.

The results of this movement into higher value-added industrialization, which began in 1980, are quite compelling. First, as Yong (1998) notes, capital input into the manufacturing sector grew at a phenomenal rate of 8.9% during the 1980-1985 period. Second, unit labor costs also grew steadily; real unit labor costs increased by 13.9% in 1980-1985 (Yong 1998), forcing employers to increasingly substitute capital for labor. Third, labor productivity growth rates improved steadily during the 1980s, with an average growth rate of 5% during that decade (Tan 1997). And the growth in productivity

accounted for 55% of economic growth rates, compared to 45% in the decade of the 1970s. Fourth, the sources of new employment in the 1980s were very different from that of the 1970s. Professional, technical and managerial workers formed a larger percentage of the workforce in the 1980s, while blue-collar workers declined from 40.4% of the workforce in 1980 to 35.3% in 1988 (although the percentage contribution of industry to GDP remained fairly constant during the same period!). Finally, the available information on foreign investment suggests that higher-quality Japanese investments appeared, expanding the manufacturing of semiconductors, disk drives, and computer assembly. The technological depth of foreign investments increased steadily, with many firms (for example, Motorola) locating higher-end processes and R&D services in Singapore (Salih, Young, and Rajah 1988). For more detail on the human resources aspects of this transformation, please see Tan (1997) and Kuruvilla et al (2002).

Economic restructuring of the type noted above is an imperative for every economy in Asia, since there is a limit to just how much they can compete with the newest low-cost arrival, China. And every country has struggled with this process of industrial upgrading. In the South Korean case, these struggles took place after democratization in 1987. The opening up of China led to the urgent need for industrial upgrading in Taiwan. Malaysia has been successful in upgrading its electronics industry, helped by a tight labor market and rapidly rising wage costs. All of these countries did make the transition to higher valued-added manufacturing, over a period of time. Yet none of these countries exhibited the relatively smooth transition made by Singapore, which was facilitated by tripartism. The starkest contrast is provided by the Philippines, where the absence of effective tripartite mechanisms (where unions have a significant

voice) may have been the reason that the Philippines continues to be stuck in a low-cost competitive strategy. As Kuruvilla, Erickson, Ofreneo, Amante and Ortiz (2003) note: “The adoption of an export-oriented industrialization strategy in the 1970s was also accompanied by several repressive policies in the industrial relations domain under the Martial Law period of President Marcos. Thus, globalization was associated with a decline in labor power and voice, and an increase in employer power with a focus on enhancing workplace flexibility in an era where the Philippines competitive advantage was lower labor costs and an English-speaking workforce. The dual focus on export orientation and low labor costs forced an industrial relations regime that focused on the pursuance of lower costs and workplace flexibility. In the Philippine context, this invariably translated into efforts at increasing subcontracting, outsourcing, and union avoidance policies under an authoritarian regime. Although the more restrictive aspects of the martial law regime were lifted with the return to fully-functioning democracy after 1986, Philippine industrial relations policy has maintained a low-cost focus. While there have been changes in labor legislation and labor rights, the fundamental character of both competitiveness as well as labor relations has remained unchanged, and in fact, has tended towards the direction of further increases in employer efforts to generate more flexible practices.” Thus, the Philippines is a country that did not have a MECHANISM to move into higher value-added economic development strategy, which the tripartite institutions afforded Singapore, permitting a very smooth adjustment to second stage EOI.

Singapore Case 3: Tripartism and the 1985-1986 Recession Years

The 1985-1986 period was a time of recession in much of Asia. In 1984, the economic growth rate was 8.3%, but this fell sharply to -1.4% in 1985. A number of factors were responsible for the recession. There was a regional recession, caused by declines in oil prices and the slowdown in international demand, leading to falling prices for primary products such as tin, rubber, and palm oil. The decline in demand for semiconductors pushed Malaysia into a recession as well, and both South Korea and Taiwan were also similarly hit. Finally, there was a slump in property prices in Singapore. At the same time, prior actions of the NWC such as the skills development fund levy (4% of the wage bill) and the high employer contribution to the CPF (25% in 1984) raised the costs of doing business for employers.

The government was faced with two options. On the one hand, the country could live with a budget deficit and lower interest rates in order to raise domestic demand, an option that was not very viable given the small size of the domestic economy (Yah 1998). The other option was to reduce costs based on the argument that reducing costs would increase international demand, but also perhaps raise domestic investment. The tripartite solution reached through the NWC was as follows. First, corporate income taxes were cut from 40% to 33%. Second, the employers' contribution to the CPF was cut from 25% to 10%. And finally, the levy for the skills development fund was cut from 4% of wage bill to 1% of the wage bill. An old payroll tax of 2% was also removed. And finally, the NWC joined with the government to call for wage restraint. In 1986 and 1987, real gross wages declined by 3.9% per year. By 1987, real GDP growth had recovered to more "usual" figures, i.e., 9.7%. In return for these reductions in "costs", the parties agreed to wage restraint for the next 2-3 years.

Most Asian countries faced a similar recession in 1985-1986. In Malaysia, nominal GNP fell by 12% in both years. Per capita GNP fell from \$2,000 in 1984 to \$1,600 in 1986. However, Malaysia's recovery from its recession began in late 1986, and improved commodity prices and strong growth in exports of manufactured goods led the recovery. The Malaysian government used the 1986-1987 recession as a basis for economic restructuring towards higher value-added investment. The new investment regime significantly encouraged higher value-added export-oriented industries, skill development and technology upgrading. In South Korea too, the 1985-1986 recession only caused a decline in real wages for one year. Thus, the recovery process in much of Asia was swift and it is hard to argue that the tripartite actions during this recession in Singapore facilitated the recovery process substantially, although it is to be noted that Malaysia and South Korea did not have the same tools at their disposal. But this was a recovery that was led by a rebounding market for semiconductors. Hence, more research is necessary to tease out the independent effect of tripartism in Singapore during this adjustment period, given the absence of similar actions in both Malaysia and South Korea.

Yet, on the other hand, these changes served as a model for the creation of a longer-range flexible wage system that has enabled Singapore to react swiftly to crises. Although the Singapore economy was well on the road to recovery by mid 1987, the NWC continued to advocate wage restraint, and simultaneously continued to urge firms to accept the flexible wages policy. Essentially the NWC was advocating a basic wage structure that provided for increases up to 2% per year of service, an annual bonus of one month's pay and a variable bonus based on productivity. The key here was that wages

should not increase faster than productivity growth, since that was essential for Singapore's competitiveness (Anantaraman 1991:180-181). As will be apparent, the tripartite adjustment process during this crisis enabled the economy to react much better during the 1997 financial crisis, given the creation of a flexible wage system.

Singapore Case 4: Tripartism and the Asian Financial Crisis

The impact of the Asian financial crisis is well documented (see Betcherman and Islam 2001 for a detailed account). In Singapore, the GDP growth rate plummeted from 8.5% in 1997 to -0.9% in 1998. Domestic consumption demand also weakened with plunging stock and property prices, falling incomes, and job retrenchments, while domestic investment demand was affected by excess capacity, economic uncertainties and tight liquidity. Although Singapore had been at full employment since the 1985-1986 recession and was experiencing a labor shortage, the unemployment rate rose to 4.4% by December 1998. Retrenchments and job losses were concentrated in manufacturing, commerce and construction. The Singapore dollar depreciated against the US dollar by about 15%. However, the established tripartite arrangements also permitted a rapid response to the crisis.

First, in 1998, the NWC recommended wage cuts of 5-8% in the total wage for 1998, as compared with 1997. The guidelines recommended that the cuts should be achieved through the variable wage component. This was in addition to cuts in employers' CPF contributions from 20% to 10% (Singapore Yearbook of Manpower Statistics 1998:19). Thus, employers were essentially provided with a saving of about 15-18 % on wage costs, which allowed them to maintain competitiveness without laying off

too many workers. And, as several people argue, providing the employers with this “cushion” helped them ride out the crisis and helped the economy recover quickly. Further, the NWC recommended that companies performing very well or very poorly could deviate from this guideline. Since most companies had completed their negotiations and granted wage increases on the earlier part of the year, the NWC recommended that employers make larger cuts in the variable component of wages (including annual bonus) to offset the higher increases granted earlier. Thus, most of the adjustment should be in the variable component of wages (not the basic wage and annual increment). Finally the NWC held that employers should discuss with unions the quantum of the cut and how best to introduce it.

Interestingly, past tripartite decisions to flexibilize wages, with the goal of roughly 20-30 % of wages being variable, helped in the implementation of the current decision, an important feature when evaluating the effects of tripartism. However, the “uptake” on the flexible wages idea in Singapore had been relatively slow, with only 47% of firms having adopted it prior to the crisis. And by 2000, the flexible component of wages had only reached 15-16%, up from 11% in 1997 (Channel News Asia 2004). The NWC had divided the variable portion into the annual variable component (normally the bonus paid at the end of the year) and monthly variable component (MVC) that was tied to productivity and profitability. This MVC was meant to give employers more flexibility and to save jobs in a downturn on a MONTHLY basis, thus providing considerable relief to those companies who had adopted it.

Second, a tripartite panel, consisting of the three actors, the Economic development Board and the Productivity and Standards Board was created to examine the

retrenchment issue (by the first quarter of 1998, 16,000 workers had been retrenched). The panel recommended the implementation of two programs, the “Retrenchment Advisory” program to advise employers on alternatives to retrenchment and the “Employment Assistance” program to assist retrenched workers find jobs quickly.

The Retrenchment Advisory program offered employers several options to avoid retrenchments, such as sending the workers for skills training and upgrading under the Skills Redevelopment Programme (SRP); re-deploying the surplus workers to other work areas within the company; implementing shorter workweek or temporary lay-off; and implementing the flexible wage system recommended by the NWC. In particular, the SRP was a win-win and a union initiative (Halimah Yacob 2006). To defray the costs of retraining workers, companies would be given training grants of up to 80% of their course fees, subject to a maximum of \$8.00 per trainee hour and a subsidy of absentee payroll up to 70% of the employees' salary, subject to a maximum of \$4.20 per hour. Thus, there was a clear incentive to send workers for training, assuring the company of a better-trained and more efficient workforce in the longer term. The government allocated a sum of \$50 million to the SRP fund to ensure that more people could be trained under the program.

The tripartite recommendation for a shorter workweek as an adjustment mechanism was also limited to a two-month period, and had a cap on the amount of wages that companies must pay during this period. Finally, the tripartite commission recommended that those companies using the temporary layoff as a method of adjustment should not exceed one month, with the union to be consulted if it exceeded this duration (while the workers would be paid half their wages during the temporary layoff).

The Employment Assistance program, on the other hand, took a number of different steps. First, the various agencies and companies agreed to pool their job vacancies to enable the Ministry of Manpower to provide a more effective job placement service to the retrenched workers. Note that the SRP program referred to above also played a key role in the matching of skills with requirements. Thus, a low-skilled retrenched worker would be referred to an employer with vacancies in higher-skilled jobs. If the employer finds the worker suitable, the company would follow-up with the NTUC's Skills Development Department to place the worker on SRP. The employer would qualify for the training grants and subsidy for absentee payroll provided under the SRP. The tripartite commission also recommended a broadcasting mechanism to facilitate the re-employment of a large group of workers who are affected by retrenchment by broadcasting the profile of the retrenched workers to a pool of potential employers. Thus the two programs complemented each other effectively. The key result of these measures was that unemployment, which had reached 4.4% at the height of the crisis, was reduced back to 2.9% by December 1999.

Singapore's response was much more comprehensive than that of other countries. In the Malaysian case, a new institution, chaired by the Prime Minister, called the National Economic Action Council (NEAC), was created. It was a multipartite institution, with labor, via the two major labor federations, CUEPACS and MTUC involved. And it was clear that the MTUC's voice was heard....since the NEAC first announced a wage freeze and suspended collective bargaining over wages, the MTUC was able to convince the council to desist from that policy. However, tripartism did not continue after the crisis. The National Labor Advisory Council, a tripartite consultative

body, drew up guidelines for retrenchment with a view to ensuring that the procedures were equitable, while highlighting alternatives to retrenchments (Campbell 2001). Although tripartism in Thailand via the National Wage Committee (which sets the minimum wage) and the National Labor Development Advisory Council (NLDAC) was in evidence during the crisis, Campbell (2001) notes that tripartism in Thailand is only “as strong as its constituent parts” and with a fragmented labor movement, and union density of about 2%, tripartism is not that effective. The crisis also revitalized, briefly, tripartism in the Philippines, a country with a highly-fragmented labor movement. A national social accord was produced, but as Erickson et al. (2003) suggest, it was not very effective in keeping retrenchments low.

Summary

In summary, tripartism has had notable effects on the adjustment processes following economic downturns in Singapore. In addition, it has solved other specific problems. For example, when turnover due to labor shortages was very high, the NWC recommended not paying the year-end bonus (a legal requirement) to employees who resign during the course of the year, which brought down the rate of job-hopping. In addition, the NWC has been instrumental in raising the retirement age in Singapore. Perhaps the biggest contribution of the NWC is in the central reason for its formation: over the years it has created a much more flexible wage regime in Singapore. For a detailed examination of the impact of the NWC, please see Yah and Chew (1998). Apart from these practical outcomes, it is also important to evaluate tripartism from the perspective of the overall “flexibility” and “responsiveness” it provides the Singapore economy. Tripartism is one more lever that the government has to allow Singapore to

adapt smoothly to changes in the economic environment. Thus, tripartism in Singapore clearly has had an impact in terms of “efficiency.”

However, we also argue that tripartism has had an equal impact on equity. This is best exemplified by the response to the Asian financial crisis (case 4) that shows that Singapore’s response was perhaps the most “worker friendly” in Asia, in that it tried to minimize job loss and maximize retraining and employability. Moreover, there is tripartite influence in Singapore’s “welfare state.” The Central Provident Fund, which is managed by a tripartite board, provides a range of benefits. Each person has a CPF account that is composed of four sub-accounts. The first sub-account can be used to finance a home, finance education, for certain approved investments and insurance. The second sub-account is primarily for the purpose of old age provisions (pension). The third sub-account is a medisave account, to be used for hospital treatment, selected outpatient services and catastrophic medical insurance, while the fourth sub-account is a retirement account, which finances periodic payments to the individual after age 62. The provident fund system thus covers (partially in some cases) the following “welfare” issues: old age benefits, retirement benefits, medical insurance, permanent disability benefits, maternity care, and survivor benefits. Work injuries are however covered by the employer (via an insurance system).

Note that Singapore’s social security system is an individualized defined contribution scheme, financed primarily through employers and employees contributions. As the cases above have shown, the tripartite actors have often temporarily reduced the employer’s contribution to the CPF to provide some cost relief in hard times (e.g. the Asian financial crisis), but normally, roughly 30-40% of an employee’s income is saved

every month through the CPF system, as Table 6 indicates. The contributors to labor force ratio was 70.9% in 1983 and 62% in 1999; the remainder being foreign workers, which account for nearly a quarter of the workforce, and the self-employed (Asher & Karunaratne 2001). Unions are now trying to insist that there is a need to enhance the return of the fund (currently, the fund guarantees a 2.5-4% return on its investments) and have for some time argued for increasing medical coverage.

Insert Table 6 about here

It is important to note that over 90% of Singaporeans own their own homes, thanks to the financing from the CPF system (they borrow from the CPF). As Ngian Tong Dow, Chairman of the CPG board said in 2000: “Many Singaporeans have used their CPF savings to buy their homes and today about 90% of Singaporeans own their own homes. We are one of the highest home-ownership nations in the world.” On the other hand, some authors like Asher and Karunaratne (2001:9) argue that Singapore’s social security faces limitations, including “inadequate balances at retirement, lack of inflation and longevity protection, lack of survivors’ benefits, and virtual absence of tax-financed redistributive tier.”

Thus, the CPF system provides a system of welfare, with the added bonus that it promotes home ownership. It is a form of welfare that is very different from the prevailing “European conceptions of welfare.”

In addition to the CPF system, tripartite governance of many different institutions has led to many positive trends on social issues over time. For example, unemployment has remained fairly steady after the spurt caused by the Asian financial crisis, averaging 4% in 1999-2004. During the period 1990-1997, real wages increased by 4.7% annually

(nominal wages increased by 7.2%), and per capita GDP increased in real terms by 5% (Singapore Department of Statistics 1998). While 90% of Singaporeans witnessed an increase in average household income during this period, the bottom 10% showed a decline of 1.8% (Singapore Department of Statistics 1998). However, that does not mean that these households are poor. Home ownership data show that roughly three-fifths of these households lived in HDB 3-bedroom flats, which is comparable to the national average. Although there appears to be no one living below the national poverty line in Singapore, measures of relative poverty, a higher standard than the poverty line, indicate that it is low in Singapore. Roughly 340,000 people had a per capita household income of less than half the median income, of which 100,000 were children. This compares very well to the other “rich” city state of Hong Kong, where 700,000 people are “relatively poor.”

Income inequality has increased somewhat in recent years, however. In 1980, the Gini coefficient was 0.48. This declined to 0.436 in 1990, increased slightly to 0.44 in 1992, and remained steady at 0.44 until the Asian financial crisis (Singapore Department of Statistics 1998). But it then rose to 0.481 in 2000 (Singapore Department of Statistics 2002).

Another bit of evidence on the positive social impact of tripartism can be seen in the increase in training. The tripartite skills development fund, which forces employers to invest in training, has resulted in a steady increase in the training budgets of firms. Kuruvilla, Erickson and Huang (2002) report that each Singaporean employee had at least 40 hours of training per year in 1998, an increase from 34 hours in 1995.

Thus we would argue that Singapore's tripartism, while rather unique when compared to the other examples in this volume, meets both efficiency and equity goals.

South Korea: Tripartism and Economic Restructuring during the Asian crisis

Evaluations of the effectiveness of South Korean tripartism in terms of its ability to mediate the nature, sequencing and policies connected with economic restructuring and reform are difficult given that there was only one general agreement which was signed by all of the parties. Since that agreement, the tripartite commission has largely been focused on "fleshing out" different aspects of the agreement, and during this process, the KCTU has been more "out" than "in" and even the FKTU has been waffling regarding their participation. It is close to impossible to show a clear causal effect of the pact on important outcomes such as the sequencing, timing, intensity, and outcomes of reform. What we hope to do in this section is to examine several different aspects of the pact and its implementation in order to assess the impact of tripartism. The evidence for different aspects we examine is, at best, circumstantial, and with some comparisons with "shadow" cases, suggestive, but definitely not conclusive. Note further that while the South Korean tripartite agreement was very wide in scope, we are looking here at only some of its provisions. What these aspects show is some attempt at reconciliation of both efficiency and equity.

Pace of Recovery and Stability

The key argument here is that the Feb 1998 tripartite agreement in South Korea was "fundamental" in general terms to South Korea's extremely quick recovery from the Asian financial crisis. The "V" shaped curve before and after the crisis, it can be argued

(and is) has to do with the overall stability that the tripartite agreement brought, particularly since it signaled to foreign investors and the IMF that the South Korean government was serious in terms of various reforms, since there was tripartite support for it. And tripartite support ensured that the process of adjustment would be achieved with relatively little social unrest. Thus, the stability provided by the agreement was an important issue. Lee (2006) talks about the “symbolic” meaning of the pact—i.e. it represented social consensus at a time when it was desperately needed.

There is considerable evidence that South Korea led the other countries in terms of the rapidity of GDP recovery, exchange rate recovery and the building up of foreign reserves. Further, South Korea stopped drawing from the IMF, and paid back its standby drawings nine months ahead of schedule. By the end of 2000, capital flows had reversed, with a net inflow of capital, and foreign direct investment started increasing as far back as 1998 itself. Most critically, by 1999, South Korean GDP growth rate had climbed to 9.5%, consistent with the pattern before the crisis. It was 4.6% in 2004. The comparative picture is provided in Table 7 below.

Insert Table 7 about here

Thus, the pace of economic recovery in South Korea has been widely attributed to the stability and commonality of purpose that the tripartite framework agreement provided. As Michel Camdessus noted in a speech in Dec 2, 1999:

*“we have learned that, when crisis strikes and a response is formulated, it is not just the **content** of a program that matters, but the degree of **support** for it. It need hardly be said that a program will work only if the country wants it to work; not just the government, but the people and organizations within the society. In short, we have seen the value of national ‘ownership’ of the policies, through a participatory approach that engages civil society in a constructive dialogue. The tripartite accord agreed by labor, business, and government in February 1998 was a landmark event in South Korea’s recovery. Equally the unity that was*

established across interest groups and across regions in the early stages of the response to the crisis is an invaluable asset that should not be given up easily” (World Bank website).

Labor Market Flexibility and Economic Recovery

As several authors have argued, the tripartite agreement was a historic compromise that attempted to settle many unsettled issues in the labor relations realm. One such issue that settled concerned labor market flexibility. Under the agreement, employers are allowed to dismiss employees for urgent managerial reasons and needs. Transfers, mergers and acquisitions of business will be regarded as urgent managerial reasons. The agreement also provides that companies should exert every effort to avoid the dismissal of workers. There are clauses regarding the method to be followed in such cases, which include discussions with the union regarding methods undertaken to avoid dismissal, 60 days advance notice to employees and labor administration offices, rational and fair standards to be used in how employees are selected for dismissal, and employers are obliged to rehire dismissed workers if they need additional employees. What the agreement did was to legitimize layoffs in big firms that had hitherto provided a high degree of employment security. The argument advanced by Koo and Kiser (2001) is that employers, acting on this agreement, began to layoff, and that helped them recover relatively quickly, and therefore, South Korean recovery is strongly linked to the tripartite agreement concerning labor market flexibility.

Clearly, employers seem to have acted on this agreement almost immediately. There was a 20% reduction in employment between the fourth quarter of 1997 and the first quarter of 1999. Each quarter, roughly 400,000 South Korean jobs were lost. By the end of the first quarter of 1999, the workforce had declined from 21.1 million in 1997 to

19 million. The fall in employment is almost completely attributable to job losses in manufacturing and construction, which accounted for 90%, and retail trade and banking accounted for the balance (Kang, Keum, Kim, and Shin 2001). And of the loss in manufacturing jobs 70% were regular workers, while the rest were temporary workers. On a comparative basis, South Korea and Thailand had the highest number of redundancies, with over a quarter of employers declaring an employment decrease of over 25%. Overall, the unemployment rate, which had showed an annual average of 2.4% during the 1992-1997 period, jumped to 8.4% during the first quarter of 1999. Similarly, the labor force participation rate declined from 62.2% that year to 58.6% in 1999. Clearly, therefore, employers took immediate steps to cut manpower. In addition, the tripartite agreement also legalized the use of temporary workers.

Koo and Kiser (2001) argue that the reduction in labor costs helped companies with heavy debt to survive, at a time when commercial banks were in trouble and could not provide finance. They also argue that once the companies survived the crisis, their higher profits as a result of lower labor costs helped re-vitalize the equity market. The key is the evidence to back up this claim. Koo and Kiser suggest two different pieces of evidence. First, they cite data regarding employment costs per worker. Real employment cost per worker in the manufacturing sector decreased by 6.8% during the crisis, while at the same time, real value added per worker increased by 6.4%. Given the wage restraint, (in fact a wage reduction as many companies cut wages), productivity growth was faster than wage growth, resulting in a drop in unit labor costs of 28% from 1997 to 2000 (Koo and Kiser 2001). We use here a US Bureau of Labor Statistics Database to come up with similar results, which are summarized in Figure 1.

Insert Figure 1 about here

What Figure 1 shows is that South Korean companies obtained a very high degree of labor cost abatement during the financial crisis, compared to other countries. Koo and Kiser (2001:33) also note that the 1998 wage cuts and job losses, which were on an unprecedented scale, were accomplished without the social conflict that could be expected in a nation with militant trade unions. Their claim that the reduction in costs and increase in productivity during the Asian financial crisis aided the more rapid recovery of many individual firms appears persuasive, but cannot be evaluated more quantitatively, given the various South Korean government actions regarding capital, credit and equity markets that were also taken at the same time. Clearly, the employment flexibility provisions of the tripartite agreement were taken advantage of by employers, and provided them considerable financial relief.

Labor Market Policies

While labor market flexibility promoted “efficiency” there is much in the tripartite agreement that attempts to promote “equity” as well. The social pact in 1998 and the various agreements reached by the tripartite commission in South Korea have spawned a wide variety of labor market and welfare programs, the breadth, depth and intensity of which has not been achieved by other countries affected by the crisis. Clearly the items in the agreement reflect labor’s voice in the process. This is perhaps the strongest case that can be made that tripartism affects the mix and intensity of reforms, but the case is made with comparative evidence.

The range of labor market policies adopted as a result of the social pact is large and provided below. Specific details of these various provisions can be found in the tripartite social pact.

- a) Expansion and improvements in the employment insurance system, including extension of coverage to employees employed in small business and part-time workers
- b) Support for retired and unemployed workers
- c) Expansion of job placement services
- d) Expansion of vocational training
- e) Job creation policies
- f) Extension and consolidation of the social security system
- g) Reduction of working hours
- h) Expansion of the national pension system
- i) Expansion of public works programs

In contrast, the other countries such as Indonesia, Malaysia, Thailand and the Philippines do not have such a range of policies. For example, only Thailand and Indonesia embarked on public works programs, but not Malaysia or the Philippines. South Korea is the ONLY country to have introduced an unemployment insurance program. South Korea also expanded severance pay programs. In the arena of vocational training, South Korea made the largest changes, with the largest amount of funding for those changes. South Korea has established labor market information systems through its employment security centers that have been used extensively by the population. Finally South Korea has provided more wage subsidies targeted at vulnerable groups such as women and youth. A comparative survey of the crisis hit countries by Horton and Mazumdar (2001) clearly shows South Korea's leadership here, and no other crisis-hit country has embarked on such a long list of programs as outlined above. Thus, the social pact did clearly affect the nature (mix and intensity) of the reforms, and attempted to reconcile equity and efficiency.

Despite South Korea's tripartite attempts to reconcile efficiency and equity from a relative (comparative) standpoint, in absolute terms we must note that there are some limitations...such as the narrow coverage of the social security system. Whereas the proportion of wage and salary earners eligible for South Korea's Employment Insurance System (EIS) increased to nearly 85% in 2004, the proportion of those actually insured was much lower, at 54.2% (Jones 2005). There has also been a large increase in the numbers of non-regular (temporary) workers, which accounted for 29.7% of employees in 2004 (Jones 2005). Although South Korea has done more for its workers than the other crisis-hit countries, it has not been able to reverse the negative impact of the Asian financial crisis on income inequality, which rose from 0.332 in 1995 to 0.389 in 2000.

Privatization and the pace of reform

We use this example to show that tripartism affects the pace of reform as well, not only the pace of recovery. In many other countries, tripartism has served to slow the pace of economic reform and restructuring, particularly in order to protect workers interests. In South Korea, however, tripartism actually served to hasten the pace of privatization, and in that sense is a contrarian example.

Privatization of state-owned industries was not one of the major nine points in the tripartite social pact of 1998 in South Korea, but privatization has been under the purview of the tripartite commission via its Special Committee on Public Sector Restructuring, which has reached several agreements, such as the agreement on manpower reduction in the postal and communication sector (August 2000), and the agreement on the break-up of Korea Electric Power Corporation. What is clear, however, is that South Korea, since

the Asian financial crisis, has embarked on privatization at a speed that far outstrips the other crisis-hit Asian countries.

As of March 1998, there were 108 SOEs (state-owned enterprises) in South Korea, employing 213,000 people and with budgets reaching 1000 trillion won. Collectively, these firms are responsible for about 8-9% of GDP. Most of these companies enjoy monopoly and market dominance. The South Korean government's approach to privatization has mostly emphasized government disinvestment. However, prior to the Asian financial crisis, efforts at privatization were not successful. A detailed account of privatization in South Korea can be found in <http://ftc.go.kr/data/hwp/apec200103.htm> from where much of this information is taken. According to South Korean government data, there had been four rounds of privatization of SOEs, in 1968, 1980, 1987, and 1993. In 1987, the government stake in Korea Electric Power Corp. and Pohang Iron and Steel Co. were put up for sale in the open market, but these efforts failed to produce substantial results due to the sluggish stock market. In 1993, the government pursued the privatization of 58 SOEs and consolidation of 10 SOEs, focusing on management accountability. The 1993 measure also failed to attain the intended goals, faced with stiff resistance from unions.

The Asian financial crisis and the consequent reforms in capital markets, credit markets, equity markets, and corporate governance that followed from the social pact paved the way for pursuing public sector reform more aggressively. Although privatization was the bailiwick of the steering committee on privatization of SOEs in the Ministry of Planning and Budget, specific issues have been addressed by the Special Committee on Public Sector Restructuring of the tripartite commission, which provides a

forum and a basis for tripartite input into these government decisions. The reform plan of the Ministry of Planning and Budget focuses heavily on four sectors: railway, power, gas, and telecoms. Tripartite agreements have been reached on some aspects of manpower reduction in railways and the break up of Korea Power's distribution business.

Furthermore, privatization and disinvestment of large scale and very important companies have proceeded at a rapid pace in South Korea. The list includes such luminaries as Korea Telecom, Pohang Iron and Steel Co., Korea Heavy Industries, Professional Korea Chemicals, Korea Technology Banking Corporation, Korea Electric Power Corporation and Korea Gas. Thus significant progress has been made in the case of eight out of eleven large SOEs in South Korea after the financial crisis.

The pace of reform in other countries has been much slower, although like in South Korea, privatization has been on the agenda for some time. Singapore, which perhaps had the largest share of its economy in the hands of government companies prior to 1985, has gradually and steadily privatized. Malaysia, with over 1,156 SOEs in 1990 (a third of which were unprofitable), had only privatized 474 projects by December 2003. Thailand, with 59 SOEs at the time of the financial crisis (of which 22 were loss making), has experienced significant delays, particularly with EGAT (the electricity generating authority of Thailand). In Indonesia, there was a significant lack of support for privatization and it has been delayed once the Iraq crisis began.

Thus, what the tripartite commission has done in South Korea is that it provided a forum for the discussion of privatization and public sector reform that has not been available to other countries. Yet, the relatively spectacular progress on privatization in South Korea cannot be solely laid at the existence of a tripartite institution or mechanism.

Summary

In summary, there is some support for the idea that the tripartite peak level agreement reached in South Korea was, in a general way, partly responsible for the relatively quick emergence out of the crisis, particularly in terms of the stability it provided, the sense of unified collective purpose it signified, and the resulting increase in confidence that it provided capital markets. The social pact clearly contributed to the speed of the recovery, for example, through the labor flexibility agreement that offered firms considerable fiscal relief, and through other efficiency enhancing mechanisms. On the equity side, compared to the other crisis countries, the tripartite agreement in South Korea produced a comprehensive set of labor market policies. Finally, it is important to note that it was critical in solving a number of outstanding labor law issues that have been in dispute for several years. As a result of the agreement, much of the building blocks of the South Korean industrial relations system are established and settled. Long-standing issues such as the bargaining structure (including industry level bargaining), the right of public sector employees and teachers to unionize and bargain, the ability of firms to layoff, multiple unionism, and whether union leaders would continue to be paid by the employers were all settled through tripartism. These have been contentious issues since the early 1990s.

The key negative aspect of South Korean tripartism is that the labor pillar it stands on is very weak, in that only one part of the labor movement supports it. Although there is an effort underway to revive the tripartite commission currently, it is not clear that the KCTU will join it (this depends heavily on internal union politics and the relative power of the moderates and the radicals). Thus, tripartism in South Korea is unstable, and not

fully representative, yet it has some impact on the mix of economic reforms, and the pace of economic recovery. One final point: even though the KTUC is not participating, the tripartite commission is continuing its work, and reaching agreements about a range of issues (several not directly related to labor interests) that are arguably good for South Korean society as a whole.

SECTION 4: CONCLUSIONS

The purpose of this paper is to examine the impact of tripartism on the nature, mix, timing, sequencing and outcomes of economic reform. In general, the case studies in Singapore provide fairly strong evidence of the impact of tripartism on economic reforms generally, and specifically on the policy mix. The examples from South Korea are strongly suggestive that tripartism does have an impact, especially in engendering a degree of stability when it was needed, and in the pace of reform as well as the policy mix. However, in the South Korean case there is an inherent difficulty in linking a one-time event to a broad range of continuing economic reform policies and outcomes.

The overarching question about the impact of tripartism on reforms included some specific research questions. The first question is whether tripartism makes reforms more sustainable and credible through buy-in from key social actors. The evidence from South Korea both confirms and disconfirms this hypothesis. On the one hand, tripartism definitely provided stability and facilitated a rapid economic recovery because of buy-in from all of the social partners. However, that buy-in was short-lived, as it was contested by one branch of the labor movement, raising questions about the continued credibility of various reform elements. The evidence from Singapore is completely consistent with this hypothesis, and over a long time frame.

A second research question (or hypothesis) is whether tripartism produces reforms that reconcile efficiency and equity. Evidence from both cases confirms this hypothesis quite firmly. The efficiency enhancing labor flexibility policies in South Korea were balanced to some degree by equity enhancing labor market and social welfare policies. In the Singapore case, the concerns with both efficiency and equity are apparent in the responses to various crisis...but the ability to reconcile efficiency and equity was facilitated considerably by the unique institutions in Singapore, i.e. specifically, the existence of the Central Provident Fund, and the deep institutionalization of tripartite decision making in many different spheres.

A final research question is whether tripartism increases maneuvering room for national policy-makers vis a vis international actors. There is insufficient evidence in the two cases to confirm or disconfirm this question.

How best do we judge the tripartite experiences of Singapore and South Korea? Schmitter and Grote (1997) suggest that corporatist arrangements are known to result in non-inflationary wage settlements along with enhanced social safety net policies, and stable taxes and spending arrangements. The basic goal of corporatist welfare policy is security and stability. This statement is based on the experience of several Western European countries over the period of the 1970s to the 1990s. Whether the statement applies today in Western Europe is highly debatable. Singapore is now as wealthy as the Western European nations, and meets several aspects of Schmitter and Grote's conception, such as the non-inflationary wage settlements, but on other dimensions, such as social safety net policies, does not. Yet, Singapore has achieved a high degree of stability, a reasonably high degree of security via job growth, retirement benefits and

labor market policies, and a high degree of flexibility. South Korea cannot claim to have achieved the high degree of stability and security suggested by Schmitter, and its tripartite institutions are not stable. Harriss (2002) uses Katzenstein's argument to characterize South Korean tripartism in that it "failed to achieve the voluntary cooperative regulation of conflicts over economic and social issues through highly structured and interpenetrating political relationships between business, labor and government." Singapore's experience is more consistent with Katzenstein's conception of corporatism.

South Korean tripartism, however, seems to conform more to Rodrik's view that democratic institutions contribute to short-term stability. Rodrik (1999) argues that democratic governance facilitates the development of institutions that produce greater short-term stability, ease adjustment to adverse shocks, and deliver superior distributional outcomes. Yet, South Korean tripartism has actually contributed to a widening of income inequality (a consequence of firms adjustment policies that increased the number of temporary employees in many industries). Singapore, while consistent with Rodrik's short-term stability argument, evidences stability over the longer term as well, especially in that it has created a path to smooth adjustment to a series of economic shocks, and has done that fairly consistently over time.

Finally, there is the question of what conditions give rise to strongly institutionalized tripartism. Baccaro and Lim (2006) argue that social pacts evolve when governments lack the institutional and electoral resources to deal with the crisis unilaterally (governments are weak). For such a pact to be stable, they argue that there must be strategic commitment on the part of the unions, and it is generally the moderate

trade unions that support a pact. Continued stability, institutionalization, and replication of social pacts depend heavily, in their opinion, on sustained employer commitment as well. Thus, per their thesis, South Korean tripartism arose due to the presence of a weak government during a macro-economic crisis. However, South Korean tripartism is unstable because not all unions supported it uniformly, and even employers began to lose interest after awhile. Thus, South Korea fits well into Baccaro and Lim's (2006) argument, although Singapore does not. In the Singapore case, while the macro-economic crisis in 1968 was an important impetus to the development of the tripartite arrangement, its institutionalization over time has been due to a strong government that has engendered employer and union commitment to tripartism.

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Table 1 Major Indicators of Singapore's Economic Growth 1960-2004

	GDP per capita (US\$)	GDP (US\$b)	GDP growth (%)	CPI (%)	Gross domestic savings (%)	Gross capital formation (%)	Trade balance (US\$m)	Exports (US\$m)	Foreign debt (US\$m)	FDI (US\$m)	Unemployment (%)	Exchange rate (S\$/US\$)
1960	2203	3.6	-	-	8.8	9.7	-533	3620	-	-	-	3.1
1961	2425	4.1	13.8	0.4	22.5	14	-608	3437	-	-	-	3.1
1962	2358	4.1	0	0.4	-34.5	15.5	-571	3595	-	-	-	3.1
1963	2503	4.5	8.9	2.2	-36.5	17.1	-704	4060	-	-	-	3.1
1964	2453	4.5	0.6	1.7	-74	21.9	-651	3448	-	-	-	3.1
1965	2675	5.1	11.7	0.2	9.9	21.9	-760	3799	-	-	-	3.1
1966	2891	5.6	10.8	2	13.7	22	-657	4249	-	-	-	3.1
1967	3172	6.3	12.2	3.3	13.7	22.2	-909	4415	-	-	-	3.1
1968	3541	7.1	13.6	0.7	18.3	24.9	-1170	4914	-	-	-	3.1
1969	3960	8.1	13.6	-0.3	18	28.6	-1392	5953	-	-	-	3.1
1970	4434	9.2	13.7	0.5	18.4	38.7	-2619	6132	-	-	8.2	3.1
1971	4876	10.3	12	1.8	18.9	40.6	-3016	6909	-	-	-	3.1
1972	5432	11.7	13.4	2.1	24.6	41.4	-958	2170	-	141	4.7	2.8
1973	5924	13	11.1	19.6	29.3	39.4	-1140	3599	-	327	4.4	2.5
1974	6179	13.8	6.1	22.4	29.1	45.3	-1860	5906	-	310	3.9	2.4
1975	6336	14.3	4.1	2.5	29.4	39.9	-2030	5481	-	254	4.5	2.4
1976	6694	15.3	7.1	-1.8	32.6	40.8	-1790	6654	-	186	4.4	2.5
1977	7116	16.5	7.8	3.2	33.5	36.2	-1480	8245	-	206	3.9	2.4
1978	7626	18	8.5	4.9	34	39	-1970	10123	-	186	3.6	2.3
1979	8239	19.6	9.4	4.1	36.3	43.4	-2200	14248	-	669	3.3	2.2
1980	8926	21.5	9.7	8.5	38.1	46.3	-2970	19430	2071	1138	3.5	2.1
1981	9335	23.6	9.7	8.2	41.3	46.3	-4690	21090	2263	1675	2.9	2.1
1982	9570	25.3	7.1	3.9	44	47.9	-5180	21016	2629	1298	2.6	2.1
1983	10253	27.5	8.5	1.2	46.5	47.9	-4360	21894	2803	1085	3.2	2.1
1984	10900	29.8	8.3	2.6	46.3	48.5	-2640	24091	3928	1210	2.7	2.1
1985	10727	29.4	-1.4	0.5	40.6	42.5	-1520	23187	4207	809	4.1	2.2
1986	10969	30	2.1	-1.4	38	37.6	-940	22738	3587	1529	6.5	2.2
1987	11854	32.9	9.7	0.5	37.9	37.7	-1140	29096	3896	2630	4.7	2.1
1988	12866	36.6	11.3	1.5	41.1	34	28	40703	3842	3537	3.3	2
1989	13732	40.2	9.9	2.3	43	34.7	-313	45700	4197	2004	2.2	2
1990	14401	43.9	9	3.5	43.3	36.4	-1630	54679	3772	3541	1.7	1.8
1991	14938	46.8	6.8	3.4	45.1	34.5	-110	61333	4369	4361	1.9	1.7
1992	15465	50	6.7	2.3	45.5	35.8	-1820	66565	4582	887	2.4	1.6
1993	16925	56.1	12.3	2.3	45.2	37.4	-2720	77858	5524	2534	2.4	1.6
1994	18271	62.5	11.4	3.1	48	33.1	1350	97919	7594	3973	2.2	1.5
1995	19152	67.5	8	1.7	50.2	34.1	6450	129557	8368	7156	2.5	1.4

1996	19900	73	8.1	1.4	50.3	35.9	7190	137495	9802	1487	2.4	1.4
1997	20887	79.2	8.5	2	51.4	39.2	6510	138716	11803	1119	1.9	1.5
1998	20027	78.6	-0.9	-0.3	53.3	32.3	13400	117717	12093	4614	2.5	1.7
1999	21157	83.6	6.4	0	50.3	32.4	12400	124468	13701	8541	3.6	1.7
2000	22767	91.5	9.4	1.4	48.5	32.8	12700	149228	15623	11924	4.4	1.7
2001	21769	89.6	-2.1	1	44.6	26.3	15700	133744	18361	-2134	2.7	1.8
2002	22153	92.2	3	-0.4	43.9	22.8	19900	137429	20657	1941	4.2	1.8
2003	22238	94.5	2.5	0.5	46.7	14.8	29300	157853	22218	5894	4.5	1.7
2004	23636	102.5	8.4	1.7	48	18.3	31210	197256	23636	5392	4.4	1.7

Note: GDP and GDP per capita are in 2000 constant prices.

Source: World Development Indicators (2005); Key Indicators, Asian Development Bank (1999, 2005); EIU country data; Department of Statistics, Singapore; Economic & Social Statistics, Singapore 1960-1982, Department of Statistics, Singapore.

Table 2 Major Indicators of Korean Economic Growth 1960-2004

	GDP per capita (US\$) *	GDP per capita (US\$) **	GDP (US\$b) *	GDP (US\$b) **	GDP growth (%)	CPI (%)	Gross domestic savings (%)	Gross capital formation (%)	Trade balance (US\$m)	Exports (US\$m)	Foreign debt (US\$m)	FDI (US\$m)	Unempl- oyment (%)	Exchange rate (S\$/US\$)
1960	156	1110	3.9	27.8	-	-	1.9	11.4	-273	33	-	-	11.7	63.1
1961	92	1133	2.4	29.1	4.9	10	3.6	13.4	-242	41	-	-	12.7	124.8
1962	104	1129	2.7	29.9	2.5	4.5	1.7	13.4	-335	55	-	-	9.8	130
1963	142	1205	3.9	32.7	9.5	21.7	7.4	18.7	-410	87	157	-	8.2	130
1964	121	1263	3.4	35.2	7.6	28.6	6.5	14.4	-245	120	177	-	7.7	213.8
1965	106	1297	3	37	5.2	13.9	7.8	15.6	-241	175	206	-	7.4	266.4
1966	130	1427	3.8	41.7	12.7	12.2	12.1	22.5	-430	250	392	-	7.1	271.3
1967	157	1480	4.7	44.2	6.1	10.9	11.8	22.9	-574	335	645	-	6.2	270.5
1968	195	1616	6	49.4	11.7	11.8	13.6	27	-836	486	1199	-	5.1	276.6
1969	239	1804	7.5	56.4	14.1	12.3	17.3	30	-992	658	1800	-	4.8	288.2
1970	279	1913	8.9	61.1	8.3	15.6	14.8	25.4	-992	882	2245	-	4.5	310.6
1971	302	2028	9.9	66.1	8.2	13.5	14.4	25.5	-1044	1133	2922	-	4.5	347.1
1972	323	2076	10.7	69.1	4.5	10.7	16.2	21.6	-574	1676	3589	-	4.5	392.9
1973	403	2280	13.7	77.4	12	3.2	21.8	25.6	-566	3284	4260	-	4	398.3
1974	556	2397	19.2	82.9	7.2	25	20.3	32	-1938	4516	5937	-	4.1	404.5
1975	608	2491	21.5	87.9	5.9	25	19.6	28.7	-1671	5003	8456	-	4.1	484
1976	824	2710	29.6	97.2	10.6	15.3	24.2	26.7	-590	7814	10533	75	3.9	484
1977	1042	2935	37.9	106.9	10	9.8	27.1	28.7	-477	10046	12648	73	3.8	484
1978	1383	3160	51.1	116.8	9.3	14.7	28.5	33.1	-1780	12711	14871	61	3.2	484
1979	1747	3323	65.6	124.7	6.8	18.3	28.3	36.1	-4395	14705	20287	16	3.8	484
1980	1674	3223	63.8	122.9	-1.5	28.7	23.3	31.8	-4613	17245	27170	-20	5.2	607.4
1981	1846	3369	71.5	130.5	6.2	21.4	23.5	29.6	-3849	20747	32433	55	4.5	681
1982	1938	3560	76.2	140	7.3	7.2	25.3	28.7	-2827	20934	37083	-82	4.4	731.1
1983	2118	3886	84.5	155.1	10.8	3.5	27.1	29	-1849	23272	40378	-61	4.1	775.7
1984	2307	4149	93.2	167.7	8.1	2.2	29.2	30.3	-1089	26486	43053	58	3.8	806
1985	2368	4388	96.6	179.1	6.8	2.4	29.7	30	-20	26633	46729	-358	4	870
1986	2703	4810	111.3	198.1	10.6	2.8	33.3	29.1	4299	34128	44500	-767	3.8	881.5
1987	3368	5293	140	220.1	11.1	3.1	36.4	30.3	7529	46560	39808	101	3.1	822.6
1988	4466	5801	187.4	243.5	10.6	7.1	37.6	31.4	11283	59973	35715	371	2.5	731.5
1989	5438	6133	230.5	259.9	6.7	5.6	34.9	33.9	4345	61832	32798	520	2.6	671.5
1990	6153	6618	263.8	283.7	9.2	8.6	35.3	37.5	-2461	63660	34968	-263	2.5	707.8
1991	7123	7173	308.2	310.4	9.4	9.4	35.6	39.7	-6904	70546	39733	-309	2.4	733.4
1992	7555	7526	329.9	328.6	5.9	6.3	34.7	37.3	-1907	76210	44156	-433	2.5	780.7
1993	8221	7916	362.2	348.8	6.1	4.8	34.4	35.7	2150	82098	47202	-752	2.9	802.7
1994	9522	8515	423.3	378.5	8.5	6.2	34.2	37	-3017	94983	72414	-1652	2.5	803.4
1995	11468	9164	517.1	413.2	9.2	4.4	36.6	37.7	-4365	124934	85810	-1776	2.1	771.3

1996	12249	9712	557.6	442.2	7	5	35.4	38.9	-15077	130038	115803	-2260	2	804.5
1997	11251	10069	517	462.7	4.7	4.4	35.4	36	-3256	138731	137138	-1560	2.6	951.3
1998	7454	9311	345	431	-6.9	7.5	37.9	25	41665	132251	139270	673	7	1401.4
1999	9549	10123	445.2	471.9	9.5	.8	35.8	29.1	28463	145735	130508	5136	6.6	1188.8
2000	10890	10890	511.9	511.9	8.5	2.2	34.2	31	16954	176221	128396	4285	4.4	1131
2001	10178	11228	482	531.6	3.8	4.1	31.6	29.3	13488	151478	110109	1108	4	1291
2002	11482	11936	546.7	568.6	7	2.7	30.5	29.1	14777	163414	143013	-224	3.3	1251.1
2003	12709	12236	608.1	586.2	3.1	3.6	31.9	29.3	22161	197637	161581	-207	3.6	1191.6
2004	14136	12743	679.7	613.5	4.6	3.6	-	-	38161	257745	177643	3397	3.7	1145.3

Note: *: data in current price; **: data in 2000 constant price.

Source: World Development Indicators (2005); Key Indicators, Asian Development Bank (1999, 2005); EIU country data; Korean National Statistical Office; Harvie and Lee (2003).

Table 3. 10 Major Agenda Items in Tripartite Agreement

- 1) Management Transparency, Corporate Financial Structure and Business Restructuring (corporate accounting, credit management systems, banking reform, restructuring of chaebol)
- 2) Stabilization of Prices (price controls of all kinds)
- 3) Employment Stabilization (employment insurance expansion, benefits, support for unemployed workers, job placement services, expansion of vocational training, job creation, redundancy)
- 4) Extension & Consolidation of Social Security
- 5) Wage Stabilization and Enhancement of Labor-Management Collaboration
- 6) Protection of Basic Labor Rights (works councils, teachers unions, political activities of trade unions, union structure, etc.)
7. Enhancement of Labor Market Flexibility (employment adjustment, layoffs, retrenchments, contract workers, advance notification)
8. Exports and International Balance of Payments Improvement
9. Other Issues
10. Agenda for Social Cohesion (corruption, money laundering, pardon for arrested labor leaders)



Table 4: Macro Economic Conditions before and after the Oil Crisis

Year	Real GDP Growth Rate (%)	Unemployment Rate (%)	Inflation rate (%)	Oil Prices (US\$ per barrel)
1972	13.3	4.7	1.9	1.9
1973	11.3	4.4	19.9	2.8
1974	6.8	3.9	22.2	10.4
1975	4.0	4.5	2.6	10.7
1976	7.2	4.4	-1.8	11.6

Source: Lim Chong Yah (1998)⁴.

Table 5: Wages during the Oil Crisis

Year	Gross wage \$	Gross wage growth (%)	Net wage \$	Net wage growth (%)	Real gross wage \$	Real gross wage growth (%)	Real net wage \$	Real net wage growth (%)
1972	368	-	328	-	828	-	694	-
1973	412	12.1	360	9.7	775	-6.5	635	-8.5
1974	488	18.2	424	17.7	749	-3.3	612	-3.7
1975	555	13.8	483	13.8	832	11	679	11
1976	581	4.7	505	4.7	887	6.6	724	6.6

Source: Yah (1998).

⁴ Here again, there are slight differences between Yah's figures and those in Table 1, especially for GDP and inflation rates. Given the lack of information on Yah's method of calculation nor the source of his data, we are unable to reconcile these figures.

Table 6. CPF Contributions in Singapore, (as percent of income) Selected years.

Year	Employee Contribution %	Employer Contribution %	Total Contribution %
1968	6.5	6.5	13
1970	10	10	20
1972	11	15	26
1974	15	15.5	31
1980	18	20.5	38.5
1982	23	23	46
1983	23	25	48
1986	25	12	37
1991	23	17.5	40.5
1994	21.5	18.5	40
1997	20	20	40

Source: Nga (1998), p175.

Table 7: Per Capita Comparative GDP growth Rates, Before and After Crisis

Country	1996	1997	1998	1999	2000
Thailand	5.5	-0.5	-9.9	1.0	5
Korea	7.1	5.0	-5.8	10.7	8
Indonesia	8.2	1.9	-13.6	-4.0	3.5
Malaysia	8.6	7.8	-6.1	0.9	-

Source: Horton and Mazumdar (2001)

Figure 1 : Percent Change in Unit Labor Costs.

