

KOREA'S ROYAL FAMILIES: PRESIDENTIAL POLITICS
AND THE POLITICAL ECONOMY OF *CHAEBŎL* REFORM

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ABSTRACT

For decades South Korean politicians, pundits, and citizens have criticized the chaebŏl, the massive, family-owned conglomerates who take up a disproportionate share of the nation's wealth and who use their influence to avoid penalties for law-breaking. However, political considerations, as well as the chaebŏl's role in Korea's post-war economic miracle, have caused reform efforts to fizzle once presidential candidates make their way into office. This thesis analyzes scholarly assessments of Korea's presidents, their policies on economy and finance, and the political considerations each faced in dealing with the large business groups. It challenges the claims of these business groups, and their supporters, of the chaebŏl's indispensability by comparing Korea to Taiwan, which enjoyed similar successes by fostering smaller businesses. It concludes by offering policy recommendations to the current presidential administration, which is better-positioned to tackle chaebŏl reform than any administration in decades.

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KEY DATES IN MODERN KOREA

Japanese Annexation of Korea.....	August 22, 1910
Liberation of Korea from Japan.....	August 15, 1945
Foundation of Republic of Korea.....	August 15, 1948
The Korean War.....	June 25, 1950-July 27, 1953
April Revolution, Syngman Rhee deposed.....	April 1960
The May 16 Coup.....	1961
Treaty on Basic Relations with Japan.....	June 22, 1965
Foundation of POSCO.....	April 1968
Assassination of Park Chung Hee.....	October 26, 1979
The Coup d'état of December Twelfth.....	1979
The Kwangju Uprising.....	May 18-27, 1980
Democratic Sixth Republic Founded.....	1987
Election of Civilian President.....	December 18, 1992
Asian Financial Crisis Begins.....	July 1997
IMF Bailout Approved.....	December 1997
First Opposition Party President Elected.....	December 18, 1997
First Female President Elected.....	December 19, 2012

CHAPTER 1 —INTRODUCTION

With a strong enemy across the 38th parallel, this economic struggle takes precedence over combat or politics. We have to accomplish, as quickly as possible, the goal of an independent economy. We must defeat Communist North Korea in economic battle.

-- Park Chung Hee¹

Big businesses aren't the only ones in the economic ecosystem.... Nobody should fall behind because of an unfair structure.

– Park Geun Hye²

The “normal” exercise of hegemony in a particular regime is characterized by a combination of force and consensus variously equilibrated, without letting force subvert consensus too much, making it appear that the force is based on the consent of the majority.

– Antonio Gramsci³

1.1. – Modern-Day Royalty

In the MBC TV series *My Princess*, airing in the first two months of 2011, ordinary college student Seol's life changes dramatically. First, she learns that she is the descendant of the last monarch of the Joseon Dynasty that ruled the Korean Peninsula for centuries prior to the Japanese colonization of 1910-1945. Then, in addition to a sudden upswing in her social status, Lee's reward is a minder in the form of Hae Young, heir to

¹ Choong Nam Kim, The Korean Presidents: Leadership for Nation Building (Norwalk, CT, EastBridge, 2007) Pg. 93

² Sangwon Yoon, "Koreans Fret World-Beating Chaebol Destroy Small Business," Bloomberg. November 12, 2012, May 02, 2013 <<http://www.bloomberg.com/news/2012-11-12/s-koreans-fret-world-beating-chaebol-destroys-small-busi.html>>.

³ Thomas R. Bates, "Gramsci and the Theory of Hegemony," Journal of the History of Ideas, 1975: 363.

the fortune of the fictional family-owned Daehan Group, sent to educate her in the etiquette required of royalty. Naturally, romance ensues.

Daehan Group's wealth as depicted on the show is astronomical; equivalent to the top two of the nation's *chaeböl*⁴ groups combined.⁵ In other senses, though, Hae Young embodies the public perceptions of a *chaeböl* heir, both for good or ill: born into an advantageous position, he speaks multiple languages and works as a diplomat. However, he also exhibits the behavior of privilege: casually spending large amounts of money, reacting angrily to insults from lower social classes, and generally being unable to relate to the monetary concerns of Seol the student. Being a romantic comedy, *My Princess*' depiction of the wealthy families that dominate the South Korean economy is not even close to the most scathing – feature film *The Taste of Money*, released the following year, included slush funds, prostitution, suicide, and even murder in its depiction of *chaeböl* doings.⁶ Still, the coupling – literally – of two heirs to family-run dynasties reflects a truism: the *chaeböl* have become Korea's modern-day royalty, and for all their faults, it would be a dream come true to join them.

Koreans are not unique in having wealth and influence concentrated in a few hands. Korea⁷ is relatively unusual, though, in that its large enterprises are a) family-owned, and b) central actors in a stunning success story, as Korea rose from one of the world's poorest nations to a top-fifteen global economy thanks to a state-business

⁴ *Chaeböl* may literally be translated as “wealthy clan,” but refers specifically to conglomerates particularly that are family-owned from generation to generation.

⁵ “Ranking of TV Drama's Chaebol Characters,” *Electric Ground*, March 28, 2011, April 25, 2013, <<http://belectricground.com/2011/03/28/ranking-of-tv-drama-chaebol-characters/>>.

⁶ Park Ju-min, “Raw, Gritty Film Takes on Korea's Powerful Chaebol,” *Reuters* June 13, 2012. May 02, 2013 <<http://www.reuters.com/article/2012/06/13/entertainment-us-korea-movie-conglomerat-idUSBRE85C05Y20120613>>.

⁷ “Korea” will be used in place of “South Korea” from here, unless a mention of North Korea becomes necessary.

partnership targeting key industries. The state no longer plays an active role in directing their activities, but many of these same conglomerates continue to thrive today, and have become globally recognized brand names, doing in a figurative sense what Hae Young from *My Princess* does: represent Korea abroad.

However, they have also made themselves easy targets for criticism in recent years, blamed for exacerbating some of the nation’s worst economic trials through their overexpansion, while leaving little room for small business growth. Recent data suggests that citizens consider inheritance passed down among the nation’s wealthy elites the primary obstacle to social mobility (see fig. 1). Certain *chaeböl* leaders have prompted additional outrage when, after being caught engaging in criminal activity, they have used their political influence to avoid jail time. Such concerns have become so widespread that in the nation’s most recent presidential election of 2012, every candidate of note criticized their practices, including the winner, the conservative nominee from the party most supportive of the business community.

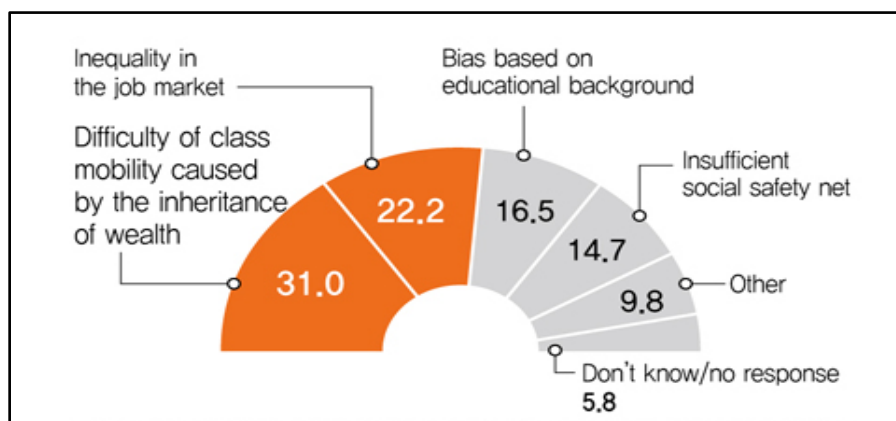


FIGURE 1 Survey of the Korean public on the primary cause of wealth inequality in early 2014

Source: The Hankyoreh, http://english.hani.co.kr/arti/english_edition/e_national/569579.html

However, that such criticism has become commonplace hardly guarantees substantial reform in the current administration. Ever since the nation's immaculate economic story took shape, Korea's leaders have tied their legitimacy to economic progress, with the staggering results of the 1962-1988 period serving as benchmarks. As such, they have developed symbiotic relationships with the *chaebŏl*, viewing them as the conduits through which they may achieve their economic and political goals. Korea's economic "miracle" is remarkable but not unprecedented, as other nations in the East Asian region experienced economic "miracles" of their own and some, namely Taiwan, did not need to foster massive conglomerates to do so. Still, just as popular culture treats them as a fixture in Korean society, political practice has been to treat them as though they are indispensable.

Though a product of Korea's dictatorial development years, this problem has actually worsened since Korea's democratic transition of 1987. Since then, it has been commonplace for presidents to promise reform, then neglect it in favor of fostering their own political ambitions and placating citizens tired of diminishing economic results. As a result the advantages the *chaebŏl* enjoy – not only from sitting atop the nation's economy, but sometimes in court with those who criticize their practices – remain unchanged.

This thesis traces presidential policy toward the wealthy clans atop the Korean business world. It finds continued need for *chaebŏl* reform due to wealth concentration, waste, stifled growth among SMEs, and unequal treatment under the law. The comprehensive reform of massive conglomerates would be a massive task, however, and

Korea's presidents have typically had other priorities; namely rapid growth and winning elections.

It begins in chapter two with the authoritarian leaders who dictated policy to the conglomerates, and continues with the democratically elected leaders who, needing their party to keep winning elections, accommodated the *chaeböl* in hopes of growing the economy. In chapter three particular attention will be paid to the often-overlooked presidency of Kim Young Sam, the clearest opportunity for thorough reform of the *chaeböl* since democracy came to Korea. Kim, a right-leaning yet reformist civilian president elected on promises of breaking with his military-backed successors, delivered on many of his promises of military, financial, and political reform.

However, instead of applying a similar approach to the *chaeböl*, Kim actually increased support for the conglomerates. The purpose was to achieve economic growth matching the results of Kim's predecessors, but these policies not only failed, they created conditions making it difficult for his successors to finish the task of *chaeböl* reform. Chapter four will reveal that, since Kim, Korea has not enjoyed a reformist president with majorities in the legislature throughout his term, and unlike some of his successors he did not take office with the effects of a financial crisis to contend with.

The history of the wealthy clans and their ties to the executive branch established, the fifth chapter focuses on questioning the legitimacy of the *chaeböl* – particularly the idea that Korea needed them to build its economy and that it still needs them today – by looking outside of Korea. This thesis will contrast Korea's developmental story with that of Taiwan, which grew at similar rate with an emphasis on smaller businesses. Having explored the lessons from that example, it will then move to

discussing the obstacles and prospects for *chaebŏl* reform under Park Geun Hye in chapter six, offering suggestions for policy and additional study.

1.2 Contribution to the Literature

Korea's staggering progress between the 1960s and 1990s and the emergence of global brand names like Samsung, Hyundai, and LG has prompted an enormous body of scholarship. The nation's post-war story has been termed a "miracle" – which suggests that it could not have been planned, predicted, or replicated, but lessons from its development are in great demand nonetheless. The pace of change in Korea spurred by its economic progress, however, has left many studies with gaps: some of the most insightful analyses of Korea's big businesses and economic policy were authored before the nation's democratic transition, before the effects of its financial liberalization were evident, or before it was clear how the nation would rebound from the Asian Financial Crisis. Certain works have shown considerable faith in the democratic process, but the Kim Dae Jung (1998-2003) and Roh Moo Hyun administrations (2003-2008) have since revealed how political polarization can bring a reform-minded president's domestic agenda to a halt.

Scholars have evaluated the *chaebŏl* as entities, analyzed their keys to success, and said that certain of their practices need to change in a globalized economy. Other observers have considered them as part of a broader study of the modern economic policy in Korea, how it has succeeded, and how it must adapt in the neoliberal order. To narrow its focus, this literature review will explore analysis of state policy that has fostered big

business, recommendations that have emerged, and point out areas in need of further analysis.

Tibor Scitovsky notes that growth in the economies of Korea and Taiwan emerged from numerous similar factors, namely their traditional culture, but notes a greater trend toward “market forces” by Taipei. This encouraged competition, which Scitovsky considers more possible in an economy that, unlike Korea’s, is not dominated by a handful of large firms.⁸ Why, though, did Korea’s leaders choose that approach? Hun Joo Park describes it as an outgrowth of Park Chung Hee’s political position: “That military authoritarian government’s political survival required a strategy that delivered quick and rapid growth and tight control of the society and economy.”⁹ That “growth-at-all-costs” approach, as she describes it, indeed had a cost: smaller companies’ growth potential was paved over, even though firms of this size are plentiful in the economies of Taiwan and Japan (at least in the post-war era), both of which experienced similar rapid growth. As to how companies were selected to carry out Park’s agenda, Chan Sup Chang offers a hint, even though his contribution is written more as an evaluation – and a mostly positive one – of *chaeböl* practices than government policy toward them: He describes their successes as stemming heavily from recruitment of government finance officials to keep them on good terms with the presidents.¹⁰

Korea’s democratization process has led to a number of appraisals of the evolving state-*chaeböl* relationship. Carter Eckert evaluates their status in Korean society as imposing, but deems them less than “hegemonic” due to popular discontent with their

⁸ Tibor Scitovsky, "Economic Development in Taiwan and South Korea: 1965-81," *Korea* 1985: 215-264.

⁹ Hun Joo Park, "Small Business in Korea, Japan, and Taiwan," *Asian Survey* 2001: 846-864.

¹⁰ Chan Sup Chang, "Chaebol: The South Korean Conglomerates," *Business Horizons* March/April 1988: 51-57.

practices and state control of credit.¹¹ This theme is echoed by Meredith Woo-Cumings' sweeping history of the conglomerates' development. She begins with the examples provided by Japanese development in the latter part of the colonial period, and continues through the years of the developmental dictatorship when, she writes, the *chaebŏl* were nurtured by the state and potentially emerging as a "formidable competitor" for it.¹² Though Eckert describes a *chaebŏl* still restrained by state control over finance, the state had at the time of their works' publication – in 1990 for Eckert and 1991 for Woo-Cumings – undergone steps toward the liberalization of finance in the previous decade. This leads Woo-Cumings to write of Korea entering into a new age, different from the one Eckert describes and one where the state would no longer "[nurse] big business from cradle to grave."¹³

The partial privatization of the financial sector, but with state encouragement of loans for the *chaebŏl* had, as this thesis will show later, disastrous consequences during the Asian Financial Crisis of 1997-1998. Ha Joon Chang places the blame for the crisis squarely on the Kim Young Sam administration for its abandonment of planning. This granted the conglomerates, especially ones close to the Kim administration, a free hand to expand into new sectors while accumulating staggering new levels of debt.¹⁴ Edward M. Graham also notes the ill-advised policies Kim undertook due to political considerations, and ends by proclaiming the need for several changes in Korean economic policy, from an end of regard for corporations as "too big to fail" to legal protections for minority

¹¹ Carter J. Eckert, "The South Korean Bourgeoisie: A Class in Search of Hegemony," Journal of Korean Studies 1990: 121.

¹² Meredith Woo-Cumings, Race to the Swift: State and Finance in Korean Industrialization 1991: 15.

¹³ Woo-Cumings 203.

¹⁴ Ha Joon Chang, "Korea: The Misunderstood Crisis" World Development 1998: 1555-1561.

stakeholders.¹⁵ Elsewhere, Sunhyuk Kim and Doh Chull Shin chart the emergence of the *chaebŏl* in the developmental dictatorship and note the dictatorial policies they had retained despite the democratization of society. It is Kim and Shin who argue, on a sanguine note, that crises, including economic ones, may be resolved in the democratic era through “open debate and criticism.”¹⁶

With the benefit of hindsight, this claim of democratic-era “open debate and criticism” may deserve another evaluation. Even at the time of Kim and Shin’s writing a problem with the era of popular vote was already apparent, in that certain of Korea’s democratically-elected presidents had attempted economic reforms, only to back down on as growth slowed, opposition parties gained steam, and the presidents desperately sought to regain their mandate. In the years since Kim and Shin’s book – published in 2004 – a new problem became evident, as President Roh Moo Hyun saw his political opponents take control of the National Assembly and refuse to work with him. This is not to say that “open debate and criticism” of the *chaebŏl* would not be constructive, but certain laws on the South Korean books, namely regarding defamation, have hindered such dialogue.

The benefit of hindsight is a key advantage this thesis enjoys over previous studies: at this point in Korea’s history the pace of development has slowed, democracy has taken firm root, and the nation has faced multinational economic crisis again, recovering more quickly in 2009 and without requiring the drastic overhaul prompted by the late-1990s Asian Financial Crisis. In short, new factors and new obstacles have emerged in which previous studies – even those published just a decade ago – could not

¹⁵ Edward M. Graham, Reforming Korea's Industrial Conglomerates (Washington, DC: Institute for International Economics, 2003)

¹⁶ Sunhyuk Kim and Doh Chull Shin, Economic Crisis and Dual Transition in Korea: A Case Study in Comparative Perspective (Seoul, Seoul National University Press, 2004)

have predicted. Now the lack of a focus on electoral politics is a gap in the scholarship on *chaebŏl* policy that this thesis aims to fill. Though *chaebŏl* policy is but one of many topics he covers, Choong Nam Kim's evaluation of Korea's presidents from the origins of the republic comes closest to this, clearly demonstrating how Korea's military-backed dictators, less concerned with the need to win elections (and more accustomed to leadership roles thanks to their military careers) could deal with the *chaebŏl* more decisively. His assessment also accurately reflects how much of the public has viewed its presidents, particularly since the democratic transition has given them a study in contrasts with the authoritarian leaders of the past:

Questions of legitimacy and effectiveness are interrelated: even a legitimate government may lose its legitimacy if the regime is incapable of functioning, just as an illegitimate regime may become acceptable if it proves to be effective, and may purchase legitimacy by such prolonged performance.¹⁷

His book, however, focuses more broadly than this thesis, shedding light on the presidents' efforts to provide leadership in dealing with both economic and diplomatic crises. Furthermore, Choong Nam Kim takes a favorable view of the leadership of Park Chung Hee and Chun Doo Hwan based on their track record of economic growth. Even if one excludes their persecution of dissent and lack of free elections – which one arguably could do in an economic policy treatise – what cannot be ignored is that these regimes encouraged the wealth concentration and overexpansion among conglomerates which

¹⁷ Choong Nam Kim, The Korean Presidents: Leadership for Nation Building (Norwalk, CT: EastBridge, 2007) 396.

played a significant role in future economic setbacks. His criticisms of presidents in the democratic era are often merited, but their inability to perform better economically has less to do with their failure and more to do with economic realities than he suggests.

This thesis seeks to provide an assessment, politically-oriented but economically and financially literate, of Korea's presidents and their policies toward the *chaebŏl*. It will demonstrate how electoral considerations influenced these policies more and more as elections became regular occurrences in Korean society, and show how presidents, with the concerns of their party in National Assembly elections to keep in mind, have increasingly taken a short-term view when crafting policy. In doing so, it will provide a perspective neither nostalgic for "effective" military rule – which did much to create the problem – nor overly optimistic about the current democratic governance that has thus far failed to resolve it. Without such biases a clearer picture of what *chaebŏl* reform would look like, and how it could be achieved in Korea's current climate, should emerge.

CHAPTER 2 – SEEDS OF THE *CHAEBŎL*

2.1 – Japanese Colonization to Syngman Rhee, 1910-1961

Any true history of the *chaebŏl* phenomenon does not begin with the *chaebŏl* themselves; it does not even begin in Korea. The story of these massive Korean firms really begins in Japan, as a number of family-controlled vertical monopolies with a banking unit at their core acted as the drivers of the Imperial Japanese economy, particularly following the Showa financial crisis of 1927 when much of that nation’s economy became focused on a handful of “strategic sectors.”¹⁸ As Japan waged war in the 1930s, its small-and-medium-sized enterprises were gradually steamrolled in favor of the *zaibatsu*, who became such a powerful force that the Ministry of Commerce and Industry, forerunner to Japan’s all-powerful MITI (Ministry of International Trade and Industry), essentially had to cooperate with the conglomerates to accomplish anything.¹⁹ Eventually, though, Japan fell to the Allied Powers at war’s end, and the *zaibatsu*’s ponderous role in the Imperial Japanese economy meant that they bore much of the blame for Japan’s conduct: the US-led post-war trusteeship ordered their family ownership structure abolished and the economic ministry happily obliged, reorganizing them around their banking units as the professionally-managed *keiretsu*.

Their ownership structure, however, lived on, as Woo-Cumings traces the development of Korea’s later economic development to Japan’s colonial occupation

¹⁸ Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy 1925-1975*, (Stanford, CA: Stanford UP, 1982) 101.

¹⁹ *Ibid.* 155.

under the Japanese rule of 1910-1945. Woo-Cumings has argued that Imperial Japan, having spent the first two decades of its colonial rule leaving the peninsula underdeveloped, exploiting it and its people. It changed its approach, though, due to the effects of the Great Depression of the 1930s and its wartime mobilization. This effort worked so well that by 1944 Korea supplied forty-four percent of Japan's iron ore imports.²⁰ Japan's industrialization of the Korean Peninsula in the last decade and a half of colonization, "bequeathed a set of patterns, a model, that could be the silent companion of Korean development ..."²¹ This industrialization drive, accomplished through a cooperative effort between the Imperial Japanese state and the *zaibatsu*, also undoubtedly impacted Koreans who witnessed it. Among them was Park Chung Hee, who served as a Japanese military officer during World War II, at a time when Japan touted economic nationalism as critical to their survival in the contest with the West. Brian McVeigh describes their outlook as follows:

"Catching up with and surpassing the West" ... and "rich nation, strong army"²² ... were the slogans that motivated Japan's drive toward modernization. To survive in a hostile world, the Japanese have been taught that they must diligently develop, promote, and when necessary, renovate their industries, and advance Japan's economic interests abroad.²³

²⁰ Woo-Cumings 38.

²¹ Ibid. 41.

²² *Fukoku-kyohei* in Japanese.

²³ Brian J. McVeigh, Nationalisms of Japan: Managing and Mystifying Identity (Lanham, MD: Rowman & Littlefield, 2004) 105.

Japan's wartime contest with the West ended in defeat, but this approach lived on. Korean dreams of independence materialized, but harsh new realities awaited in the form of national partition and, in 1950, the Korean War. By the time of the 1953 armistice, fifty-two of South Korea's fifty-five cities had been reduced to rubble and upkeep of national defense forces equaled two and a half times the impoverished nation's annual revenues.²⁴ However, they did have the support of the United States, which had defended the South during the Korean War and aided it in the post-war period to prevent the spread of communism southward. Between 1946 and 1976, the United States supplied \$12.6 billion in aid to Korea, the third-highest amount it gave to any nation during that period,²⁵ and Korea's economy grew by an average of 4.5 percent annually between 1953 and 1962.

The Americans grew frustrated, though, with Korea's first president, Syngman Rhee. Rhee, by this time nearing his eighties, had spent almost all of his adult life advocating Korean independence and fighting Japanese colonization, and rebuffed US advice to form a closer relationship with Japan despite any promised economic benefit. He also resisted their plans to liberalize the economy, putting off bank privatization until 1957.²⁶ Furthermore, even though Rhee spoke fondly of his wish for "one nation," cooperative and undivided by class, he had used the aid the United States pumped into the nation not to nurture economic self-reliance, but to keep himself politically entrenched. Rhee and his party had formed a mutually beneficial relationship with several

²⁴ Choong Nam Kim 69-70.

²⁵ Only Israel and South Vietnam received more.

²⁶ Woo-Cumings 44-50.

wealthy businessmen during his term, and in doing so had provided the foundation for the prosperity of a few at the expense of the many, Graham writes:

Large amounts of US aid enabled South Korea both to maintain its military and to keep its population from starving, but one intended goal of the aid, to create a light industrial base, went largely unrealized. One reason was widespread corruption: a significant amount of the aid was appropriated for private use, thereby creating a new class of wealthy Koreans and failing to reach the rank-and-file Korean people for whom it was intended.²⁷

Certain of these wealthy elites, like Samsung founder Lee Byung Chull, had achieved their wealth in the post-Korean War climate.²⁸ Others, like Park Heung Sik of Hwasin Chain Store, had risen to prominence even earlier than that, while Korea was still under Japan's domination. In either case, public resentment of their wealth accumulation would follow, but in a twist, this past gave them an even bigger part to play in Korea's future.

2.2 – Park Chung Hee – 1961-1979

After a disputed election in 1960, public discontent with the Syngman Rhee dictatorship and his determination to stay in office finally boiled over, and protests drove him into exile abroad. A new democracy with a parliamentary-style government and figurehead president followed, only to be abandoned following the military-led coup that

²⁷ Graham 13.

²⁸ Lee, Woo-Cumings notes, was later accused of donating 64 million *wŏn* to Rhee's party.

brought General Park Chung Hee to power in 1961. Among Park's first acts upon seizing power was to condemn a number of wealthy businessmen for illicit wealth accumulation through acts such as avoiding taxes and paying political favors to Rhee. This was done with nationalist, and not populist ends in mind, however, due to Park's concerns over his nation's gap with North Korea in both military and – at the time – economic terms.²⁹ Park himself, as a coup leader in a nation that had risen up to oust a dictator in recent years, likely felt uneasy about his own status, and Hun Joo Park's assertion, noted in the literature review, that his policy was driven by his and his country's precarious position makes sense given his early rhetoric. See, for example, his inaugural address in which he warned that rapid action from all the people would be required to mobilize the nation, lest "black clouds ... veil our country, our people and our history forever."

Envious of the nineteenth century Meiji Restoration that had made Japan an economic and military marvel, Park adopted a Korean translation³⁰ of the Imperial Japanese motto "Rich Nation, Strong Army" as his nation's slogan, called for the embrace of frugality as a social virtue,³¹ and used his experience as a officer to enforce military-style discipline in his government.³² In 1961 he renationalized the nation's banks (privatized just four years earlier), created the Economic Planning Board to set the national growth strategy, and established the nation's first five-year development plan. Using accusations of corruption under Rhee as leverage, he forced the firms who would

²⁹ Most of the industrialization the Japanese had carried out during colonization had taken place in the North, and these facilities were still located there despite the ravages of the Korean War.

³⁰ *Puguk kangbyŏng* in Korean.

³¹ Laura Nelson, "South Korean Consumer Nationalism," *The Ambivalent Consumer: Questioning Consumption in East Asia and the West* ed. Sheldon M. Garon and Patricia L. Maclachlan (Ithaca, NY: Cornell University Press, 2006) 191.

³² Choong Nam Kim 115.

become the *chaeböl* into a partnership. Kim and Shin describe the resulting industrialization process as consistently state-led:

Korea's developmental state, run by authoritarian presidents and their loyal bureaucrats, drafted economic plans, ensured the implementation of the plans, designated "strategic" industries, set export "targets," protected fledgling industries, muffled labor unrest and social protest, and intervened in credit allocation to reward or punish private companies according to their performance.³³

About twenty years earlier, after Japan's family-owned *zaibatsu* had been dissolved by the interim post-war American government, then reorganized around their banking units³⁴ and turned into the horizontally-organized, non-family-owned *keiritsu*. The old *zaibatsu* structure and role in society lived on in the new *chaeböl*, though, with the difference being that the *zaibatsu*, though their successes were held up as a source of national pride, were independent actors controlling their own banking units and pushing their own agendas. In Korea, at least at first, the relationship between the state and the family-owned conglomerates worked very differently.

With finance nationalized and the keys to success therefore belonging to Korea's military-backed executive branch, entwining themselves with the South Korean state became paramount concerns for big business. Poor relations with the Park regime lead to the downfall of certain firms. Chan Sup Chang writes that those who successfully earned the favor of the state did so by recruiting heavily from it, particularly staff from the

³³ Kim and Shin 17.

³⁴ Johnson 174.

president's office, the National Assembly, the Economic Planning Board, and the Ministry of Finance and Commerce and Industry.³⁵ If they succeeded the benefits they received were manifold: low – at times negative – interest rates,³⁶ protectionist trade barriers, cheap labor insulated from labor protests by a heavy handed police force, a monetary policy that favored exporters, encouragement to expand, and assurances that the government would not abandon them to bankruptcy.³⁷

The government at first chose export-heavy sectors like textiles and apparels for the conglomerates to enter, and with the help of unforeseen developments and some risky foreign policy maneuvering, Park laid the seeds for a booming economy. The first five-year development plan focused on rural development but shifted to an emphasis on exports when those exceeded expectations. Braving furious domestic protests, Park normalized relations with Japan in exchange for grants and low-interest loans worth hundreds of millions of dollars.³⁸ Between 1964 and 1973 he committed 320,000 military personnel to assist the US military endeavor in Vietnam, which led to fruitful construction projects that greatly boosted Korea's exports. Support for the Vietnam War also led to the Brown Memorandum, under which \$1 billion in US aid was directed into South Korea from 1965 to 1970.³⁹ Park channeled the funds from these foreign policy coups into development ventures; after exports, the second phase of Park's development dream was to take place in the realm of heavy industry, including steel projects meant to fulfill his dreams of an industrialized nation with a self-reliant military. Despite doubts

³⁵ Chan Sup Chang 53.

³⁶ Beck 1019.

³⁷ Woo-Cumings 10.

³⁸ For context, consider that Korea's total exports at the time amounted to around \$200 million.

³⁹ Choong Nam Kim 120-124.

from sources such as the World Bank about the feasibility of his goals, the nation's growth exceeded even Park's aspirations.

Setting targets of seven percent in both of his first five-year development plans, Korea's GNP actually grew by annual average of 8.3 percent from 1962-1966 and by 11.4 percent from 1967-1971.⁴⁰ Starting in 1965, South Korea increased its per capita GNP twentyfold to \$2,000 by 1985,⁴¹ a duplication of Japan's post-war feat from 1950 to 1970 (see fig. 2). Founded in 1968, the steelmaker POSCO served as the lynchpin of Park military and economic goals, defying doubters who pointed to the nation's lack of steel-making experience. Today POSCO ranks as the world's fourth-largest company of its kind,⁴² and the nation's growth outlived Park, continuing into the late-1980s. Though the *chaeböl* took a disproportionate share of the wealth – the top thirty conglomerates amounted to nearly forty-five percent of the economy by 1995⁴³ – others benefitted: the so-called “new middle class” nearly tripled to 17.7 percent from 1960 to 1980, while the rural lower class fell from sixty-four percent to only a little more than thirty-one percent the same time period.⁴⁴

⁴⁰ Choong Nam Kim 117.

⁴¹ Kim and Shin 51.

⁴² "World Steel in Figures 2012," World Steel Association, January 6, 2012, April 25, 2013. <<http://www.worldsteel.org/media-centre/press-releases/2012/wsif.html>>.

⁴³ Kim and Shin 19.

⁴⁴ "South Korea – Society under Park," US Library of Congress Pub date unknown, April 25, 2013 <<http://countrystudies.us/south-korea/16.htm>>.

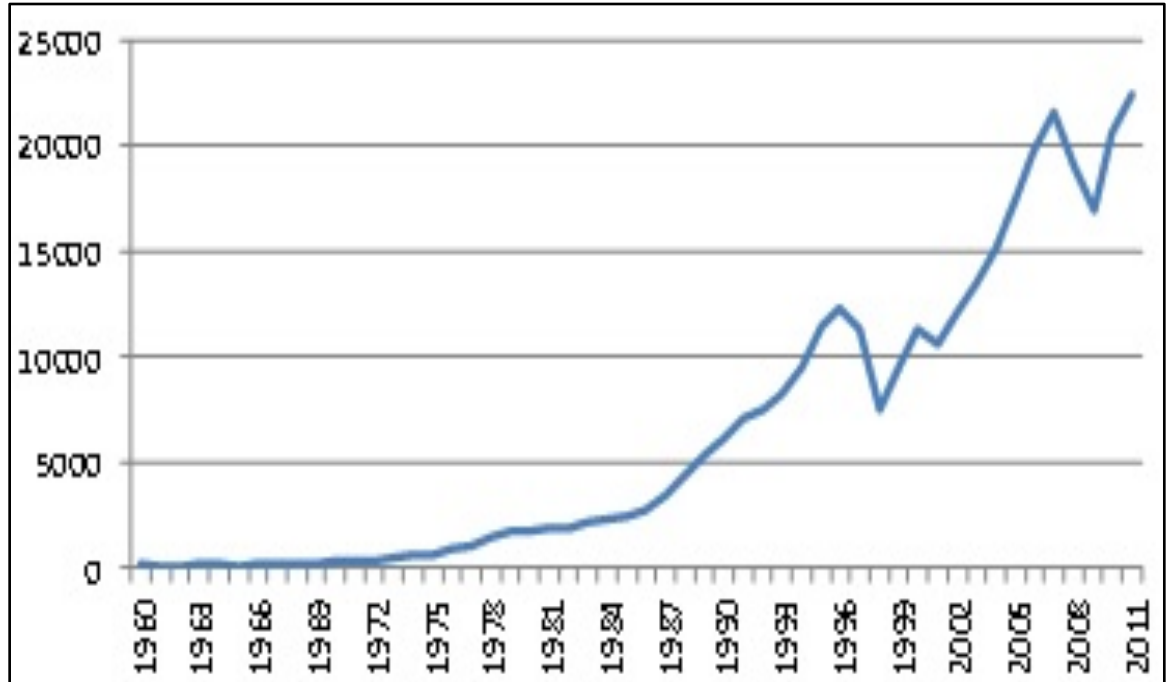


FIGURE 2 –Korea’s per capita income growth from 1960 to 2011 (in \$)

Source: Hazar Strateji Enstitüsü,

http://www.hazar.org/blogdetail/blog/development_of_human_capital_lessons_from_south_korea_484.aspx

However, the heavy industry investment binge under Park resulted in a serious hangover at the end of the 1970s. Inflation soared, with prices rising by an average rate of twenty-three percent starting in 1974. The Park administration finally set anti-inflation measures in April 1979, but these policies caused a recession and set into motion the events that would cause Park’s downfall.

Economic slowdown had already affected Korean politics, as National Assembly elections from the previous fall had resulted in more seats for opposition parties. At this point the lag increased the confidence of Park’s enemies, particularly a veteran legislator named Kim Young Sam. In the months to come Kim’s defiance and Park’s repression fed off one another: first Kim denounced Park on the floor of the National Assembly, then

Park had personnel from Kim's party arrested, then Kim called for the United States to withdraw support for Park's regime, then Park engineered a National Assembly vote evicting Kim from the legislature.

The expulsion prompted massive protests, particularly in Kim's regional stronghold of Pusan. The Park regime's harsh response to these demonstrations, including martial law in those cities, inflamed a dispute within Park's own staff over the severity of such crackdowns. Ultimately, this resulted in Park's assassination by his own intelligence chief, Kim Jae Kyu, that October.⁴⁵ If his successes had not done enough to establish the need for economic growth, the circumstances leading to his downfall made the case conclusive.

2.3 – Chun Doo Hwan – 1980-1988

Modern recollections of the general and former President Chun Doo Hwan are frequently, and understandably, scathing. Just as Korea began to emerge from Park's nearly two-decade-long military rule, Chun orchestrated another military coup in 1979 that placed him in effective control of the country. A year later he officially arranged that he be elected president, a title he would cling to for more than seven years without another election.

When the topic changes to how he used his authority, discussions of state repression, especially the fatal crackdown on the Kwangju Democratic Movement of 1980⁴⁶ usually arise. The post-presidency years have not been kind to his reputation either, as corruption charges came to light through National Assembly hearings in the

⁴⁵ Choong Nam Kim 143-145.

⁴⁶ Which, depending on the source consulted, resulted in as many as 2,000 civilian deaths.

subsequent administration and a high-profile criminal case in the mid-1990s resulted in his prosecution and an eventual death sentence. Chun, unlike the nation's previous military dictator, also lacks the gratitude that many feel toward Park Chung Hee, particularly among of citizens who remember the poverty that Park's policies lifted them out of.

Even so, his actions on the economy generally, and *chaeböl* specifically, are instructive. The period following Park's assassination was filled with uncertainty, as inflation rates remained problematic and international investors showed considerable doubts about the Korean economy's continued success. However, not only did Chun maintain Park Chung Hee's dreams of expansion, he retooled the Park administration's industrial policy in key areas, taking its industries into sectors that would reshape the nation's future. He also proved to be the last of Korea's presidents to dictate policy to the *chaeböl*, even if it meant delaying gratification.

By 1980, South Korea's economy, for all its progress, had not yielded Park's promise of shared growth⁴⁷ and the public viewed the *chaeböl* as mirror images of the totalitarian state. Thanks to state protection, "the internal structure of the [*chaeböl*] could function with a total disregard from democratic accountability," Kim and Shin write.⁴⁸ After Chun's coup but before he assumed the presidency, he oversaw the creation of the new Korea Fair Trade Commission (KFTC) tasked with enforcement of a law referred to as the Korean Antitrust Act (KAA). The government instituted measures to prevent monopolistic consolidation of wealth among a few companies, such as prevention of

⁴⁷ Nelson 191.

⁴⁸ Kim and Shin 19.

cross-ownership of shares in large firms and prohibitions against holding more than twenty-five percent of another domestic firm's equity.⁴⁹

Chun also began the presidential practice of *chaebŏl* criticism, leveling accusations of illegal wealth accumulation and even forcing a few to restructure or close operations.⁵⁰ In 1981 he overruled the protests of big business (as well as ruling and opposition lawmakers, the press, and the public in general) by promoting anti-inflation policies such as cutting subsidies, a stricter monetary policy, and slowed wage growth. By 1983 these policies succeeded in taming soaring consumer prices, and Chun proceeded to begin financial industry liberalization, allowing private banks and other financial institutions into the market, as well as decreasing barriers to foreign competition.

Not only did Chun's policies cool inflation, but overinvestment into heavy industry resulting in "waste, idle capacity, and overall inefficiency"⁵¹ slowed, and Korea's economy stood poised for recovery. Chun seized this opportunity by promoting science and technology, nearly tripling investment into research and development's share of the GDP to 2.2 percent between 1981 and 1987. In doing so, he may take credit for Korea's later technological triumphs, as the nation's telecommunications infrastructure vastly expanded, overtaking textiles as the nation's primary industry⁵² and paving the way for the nation's status as the world's most wired nation, where ninety-five percent of the populace has broadband Internet access.⁵³ So great were Chun's economic successes that,

⁴⁹ Graham 58.

⁵⁰ Beck 1019.

⁵¹ Woo-Cumings 11.

⁵² Choong Nam Kim 181-189.

⁵³ Michelle Flandreau, "South Korea: Why So Wired?" *ABC News* June 25, 2010, May 02, 2013 <<http://abcnews.go.com/GMA/south-korea-wired/story?id=11011988>>.

despite the forced slowdown early in his tenure, the nation still grew by an annual average of 9.5 percent during his seven and a half year tenure.⁵⁴

The *chaeböl* that embraced Chun’s R&D push, such as Samsung, bloomed. Though one of the firms co-opted into Park Chung Hee’s development plan in the early 1960s, Lee Byung Chull’s company had spent much of Park’s term “on the outs” with the president,⁵⁵ at least relative to Park favorites such as Hyundai, Daewoo, and SK. With the push for R&D, the company rapidly expanded abroad, building electronics plants in places such as the United States, Japan, and Britain. Lee died in 1987, but Samsung itself was poised to take on a major role in Korea and abroad.

Plus, in the latter half of Chun’s administration harsh rhetoric and sternly worded laws against *chaeböl* monopolies did not necessarily translate into austerity for the wealthy clans. As Graham writes:

... if the KFTC were to determine that a capital investment by a large business group was necessary to strengthen the international competitiveness of a “priority sector” as designated by presidential decree, the investment would be permitted. Thus, the provision in the KFTC designed to keep the [*chaeböl*] from entering new activities was all but neutralized if any ... exemptions could be invoked.

Furthermore, he writes that Chun’s policies did little to address the other source of the *chaeböl*’s power: “The KAA, even if it had been more rigorously enforced to reduce market power, would not necessarily have been effective in reducing the power of the

⁵⁴ Choong Nam Kim 209.

⁵⁵ Graham 7.

groups exercised through political channels.”⁵⁶ As economic growth persisted, Graham writes that Chun’s reform efforts dwindled. Thus began an ongoing pattern in which the nation’s leaders express disapproval of *chaebŏl* activities but policies did not match their words. This, unfortunately, carried over as Korea transitioned from dictatorship to democracy.

2.4 – Roh Tae Woo – 1988-1993

Unlike Park Chung Hee, Chun could boast of a peaceful transition of power, but once he handed over the reins he could not guarantee similar successes for his successor. The dictatorial Chun took some tentative steps toward *chaebŏl* reform, only to back away in exchange for higher growth, and his hand-picked standard-bearer in the new democratic order, Roh Tae Woo, attempted the same. The key difference was that he, unlike Chun but like other democratic presidents to come, did not see his compromise rewarded with a boom.

Roh, a major-general in the South Korean army whose troops had provided key support to Chun during the 1979 coup, left military service in 1981, spent the early part of the 1980s overseeing preparations for the Seoul Summer Olympics of 1988, and joined the National Assembly in 1985. Over these years Roh acquired legislative experience, plus a reputation for modesty and an even keel, leading Chun to prod him into presidential politics. Choong Nam Kim, for one, suggests that Chun may have purposefully cultivated his own hard-line reputation to make Roh a more appealing contrast.

⁵⁶ Graham 59.

Roh's foray began with the startling announcement in June 1987 of an eight-point plan for democratic reform, including free elections, a free press, and amnesty for political prisoners. This included Kim Dae Jung, and gave the long-time dissident the capacity to oppose Roh in the election later that year. With the opposition divided among Kim Dae Jung, Kim Young Sam, and Kim Jong Pil, though, Roh prevailed with a little less than thirty-seven percent of the vote. Roh's conciliatory approach and support for democratic reform provided a fresh source of optimism.

However, he quickly learned that democracy meant he could not govern as his predecessors had. In April 1988, just months after his inauguration, his party⁵⁷ faced a setback in National Assembly elections, as energetic campaigning by the "three Kims" left Roh and his party without a legislative majority. Freed from political oppression and eager to get back at the ruling bloc, the three opposition parties refused to work with Roh and the business of the legislature became devoted to hearings on the wrongdoings of the Chun years.

Starting with Roh, Korea's democratic leaders have attempted to duplicate, or at least approximate, the economic success of their authoritarian forerunners even though they have a much harder time silencing dissent, particularly among organized labor, and can no longer simply arrest opposition forces. Korea's democratic governments since Roh have also been plagued by other problems: Park Chung Hee poured over statistics,

⁵⁷ Dubbed the "Democratic Justice Party" following Chun's assumption of the presidency, it became the "Democratic Liberal Party" following a tripartite merger in 1990, followed by three more name changes, most recently settling on the "Saenuri" (New Frontier) Party in 2012. Because of this and the equally frequent moniker changes to its left-leaning opposition, the terms "conservative party" and "progressive party" will be used to describe the two largest blocs. Full party names will only be used when referring to minority blocs, or when distinguishing between the parties making up a coalition.

and oversaw projects such as the nationwide highway system step-by-step.⁵⁸ Chun Doo Hwan received extensive tutoring in economics in the early days of his administration and his experience at a technical high school motivated his push into R&D investment.⁵⁹ In addition to facing keener resistance from a newly empowered civil society, since Roh Korea's leaders have been less-adept managers presiding over a much more unwieldy enterprise, attempting to duplicate the successes of these authoritarian leaders without similar leadership skills or attention to detail.

Early in this tenure, for example, Roh could not settle on a consistent economic policy, or even an economic team. Roh had promised economic democratization, but inflation, increased protectionism in Korea's top export markets, and workers' demands for raises spiked, and by 1989 the nation's economic growth had dwindled to 6.4 percent, half that of the previous year. Most nations would consider this rate a boon, but memories of twentyfold development remained fresh in the public's mind. Furthermore, if the nation did not achieve six percent annual growth, a detrimental effect would take place in either its employment rate or standard of living due to the nation's overall population increase.

Roh appeared to arrive at a solution for the legislative standoff in 1990, when he negotiated a compromise with Kim Young Sam and Kim Jong Pil in which their three parties formed a single ruling bloc that controlled 217 out of 299 Assembly seats. With this change, the business of legislating became easier immediately; on one July day in 1990 they passed twenty-six bills in thirty seconds.⁶⁰ The new party then announced the

⁵⁸ Choong Nam Kim 116.

⁵⁹ Ibid. 168-179.

⁶⁰ Choong Nam Kim 218-230.

need for a more gradual approach to economic reform, effectively calling for a return to pro-growth policies. Still, efforts to jumpstart the economy failed despite grandiose infrastructure plans including the building of a high-speed railway connecting Seoul to Pusan. By 1992, the economy grew just 4.7 percent, the lowest since the year following Park's assassination.

As Roh struggled he lost control of his own party. Kim Young Sam had grown into a more influential force, gradually using Roh's setbacks and military past as justification for why he, with a civilian background and reformist record, should lead. Though Kim did not command the largest faction with the ruling party, efforts to find an alternative to him failed and he won the nomination for president for the 1992 election. As Roh's political capital evaporated, his calls for more equal economic development and for the *chaeböl* to jettison unprofitable ventures diminished. Instead, rampant land speculation⁶¹ meant that *chaeböl* put the profits of the Chun years to unproductive use, even as Roh's infrastructure projects continued to boost their profits.

Nonetheless, the state still appeared to possess the means to reform their practices. As Carter Eckert's 1990 contrast between the *chaeböl* with the *yangban* explains, the *chaeböl* faced distrust from the working and middle classes, and the state retained much of its control over them, particularly through credit.⁶² A number of government controls had kept the *chaeböl* from dominating the public sphere, and Eckert observed their unknown capacity for achieving "economic and political independence." Many of them had also accumulated wealth during the Japanese colonial period, and

⁶¹ Kyung-Hwan Kim and Seoung Hwan Suh, "Speculation and price bubbles in the Korean and Japanese real estate markets," *The Journal of Real Estate Finance and Economics* 1993: 73.

⁶² Eckert 121.

many more had under the corruption of Syngman Rhee. Eckert also wrote of the nation's long-standing "robust egalitarian ethic," meaning that much of society viewed their wealth accumulation negatively. As Graham writes, "... the fact that they had, in the eyes of many of their fellow Koreans, obtained their initial wealth (under Rhee) was to taint their many later accomplishments."⁶³

Their lack of hegemonic status did not mean that reforming their practices would be simple. For one, discontent over slowing growth rates meant that a leader would have to be willing to defy public pressure, much as Chun had a decade earlier. To do that, Korea would need a leader with credibility and broad popularity. This leader's policies would require a break with the past, and a willingness to undertake the destabilization resulting from taking on the nation's engines of expansion.

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CHAPTER 3 – A REFORMER AS PRESIDENT

3.1 – Kim Young Sam’s Career and Early Policies

Kim Young Sam had achieved distinction long before his protests against Park Chung Hee’s dictatorship. His atypical career began in 1954 when he, at age 25, became the youngest-ever elected member of the National Assembly,⁶⁴ and he established his anti-authoritarian bent just months later when he resigned from the ruling party in protest of Syngman Rhee staying in office past previously established term limits. After helping form an opposition party, Kim remained in the Assembly in the decades to come, save for a brief period after Park Chung Hee’s 1961 military coup when the military government dissolved the Assembly. During Park’s dictatorship Kim earned international renown by speaking openly and fearlessly, calling for Park’s resignation and refusing to even negotiate with him near the end of the 1970s.

In this era, Kim Dae Jung was the only political figure who could rival him in terms of steadfast support for democracy and opposition to dictatorship. The two had been temporary allies, with Kim Young Sam declining to run for president in 1971, instead supporting Kim Dae Jung in his ultimately unsuccessful bid. Furthermore, following Park Chung Hee’s 1979 assassination, Kim Young Sam negotiated with acting president Choi Kyu Ha for Kim Dae Jung’s release from house arrest.⁶⁵ However, unlike Kim Dae Jung, Kim Young Sam did not come from a background anticommunist South Korea found disagreeable – at the time Kim Dae Jung was participating in leftist

⁶⁴ Choong Nam Kim 260.

⁶⁵ Which was, however, reinstated under Chun.

organizations in the 1950s⁶⁶ Kim Young Sam was already an Assembly member in Rhee's ruling party.

Their alliance fractured in the 1980s when neither would step aside, allowing the other to position himself as South Korea's civilian alternative to Chun's military rule.⁶⁷ In 1987 both men ran for president, and both performed well in their regional strongholds but neither gained enough nationwide support to stop the election of Roh Tae Woo. Five years later, Kim Young Sam had placed himself in better position by merging his party with the ruling bloc, and in his determination to win the presidency he strongly criticized Kim Dae Jung's past leftist connections and accused him of being soft on North Korea. Still, neither the contentious nature of the campaign nor Kim Young Sam's winning with just forty-one percent of the vote could mask the mandate he entered office with. Korea had its first president with a civilian background since Yun Bo Seon's short-lived tenure in the early 1960s, and international observers such as Gaston Sigur, the former US Assistant Secretary of State for East Asian and Pacific Affairs, celebrated Kim's victory. In the year Kim took office, Sigur wrote of him:

As a man who has devoted his entire public life to the cause of democratic reforms in his country, one can expect Kim Young Sam to use the coming years to firmly put into place and nurture those institutions so essential to a healthy democratic society.

⁶⁶ Choong Nam Kim 312.

⁶⁷ Ibid 162.

The Korean people have clearly indicated their support of such policies and this augurs well for the future.⁶⁸

In March, upon taking office, Kim laid out an agenda distinct from those before him. In fact, he declared their presidencies illegitimate, and blamed them for the “Korean disease,” which he defined as corruption, loss of discipline, and declining respect for authority. He promised no leniency for corruption and started his reforms at the very top of society. He pledged the restoration of law and order and renewed vitality in the economy sparked by loosened regulations. He may not have won a majority of the electorate, but after his speech Kim seemed to prove Sigur correct, as ninety-five percent of the country supported his agenda,⁶⁹ an approval rating not seen before nor since.

His revitalization drive started with his own office, as he made public his assets and insisted on the same from his staff, even though this would lead to the disgrace and dismissal of some of his aides. He imposed his anti-corruption drive on the rest of government, leading to the arrest, firing, or censure of nearly a thousand government officials within three months. Major names in the business world also fell: the government indicted Chung Ju Yung, chairman of Hyundai and the third-place finisher in the 1992 election, on charges of embezzling company funds for use in his campaign, and Park Tae Joon, the founder of POSCO and former prime minister, fled the country rather than face tax evasion charges.

⁶⁸ Gaston Sigur, "Introduction," in Korea's New Challenges and Kim Young Sam, ed. Gaston Sigur (New York, NY: Carnegie Council on Ethics and International Affairs, 1993) 13.

⁶⁹ Kim and Shin 20.

Kim then turned to the military, whose leaders had twice since 1961 seized the presidency in coups. Kim declared illegal the 1979 takeover in which Chun had seized control of the government, and began terminating “political soldiers,” i.e. officers with membership in *Hanahoe*, the closely linked fraternity of Korea Military Academy graduates⁷⁰ from which Chun and Roh had emerged. Within one year, Kim dismissed more than a thousand military officers on bribery and other charges. The move had its risks, considering the possibility of destabilization caused by the declining health of North Korea’s 81-year-old leader Kim Il Sung, but it firmly established civilian control over the military.

Furthermore, Kim Young Sam made a lasting anti-corruption contribution in summer 1993 by announcing the Real-Name Financial Transaction System, which prohibited anonymous financial purchases, or those under an assumed name, to drive a wedge between the worlds of business and government. Though a long-term success, this move required resolve, as it led to a temporary liquidity crunch among small and medium-sized enterprises who suddenly could not get bank loans.⁷¹ Kim chose to decree the policy change through the use of an executive privilege originally claimed by Chun in 1983, thus bypassing resistance in his own cabinet and party in the legislature. Eventually, though, the Real-Name Financial Transaction System and the later Real-Name Real Estate Registration Law and the Public Officials’ Ethics Law, would amount

⁷⁰ Sanghyun Yoon, "South Korea's Kim Young Sam Government: Political Agendas," *Asian Survey* May 1996: 512.

⁷¹ *Ibid.* 514.

to, in Choong Nam Kim's words, "perhaps the most important pieces of anticorruption legislation in any East Asian Country."⁷²

Later, the Real-Name Financial Transaction System would prompt the biggest case in South Korea's legal history, after the revelation that Roh Tae Woo was actually in control of an account under the name of Daewoo chairman Kim Woo Chung. This led to bribery charges against the two, and eventually resulted in a wider investigation ensnaring nine other *chaeböl* leaders and Chun Doo Hwan.

3.2 – Politics over Reform, 1994-1997

Despite Kim's initial popularity, he had reason to believe that bold action on the economy would be necessary to keep his ratings up. Roh Tae Woo, after all, had enjoyed high popularity ratings early on thanks to his less authoritarian style and the successful hosting of the 1988 Olympics. By the 1992 election, though, the slowing Korean economy had become the paramount issue. Now, even as Kim Young Sam threatened to root out corruption and end the concentration of wealth in the hands of a few, he promised the revitalization of the economy, stating that this would be necessary to maintain living standards as Korea's demographics changed. This pledge sat uneasily beside Kim's anticorruption promises, which would cause disruptions even if they resulted in greater long-term benefits.

By late 1994 Kim's popularity had significantly dropped. There were several causes: the public had come to see the relentless anti-corruption purges as politically motivated in that they eliminated Kim's enemies, but a series of fatal manmade

⁷² Choong Nam Kim 271.

disasters,⁷³ the repeated and seemingly arbitrary re-shuffling of Kim's aides, and a scandal, in which a nationwide epidemic of tax officials found pocketing hundreds of thousands of dollars worth of funds, also contributed. Suddenly Kim's emphasis shifted, as did his definition of the "Korean disease." Once described as a general stagnation brought about by corruption and disillusionment with authority, Kim now diagnosed the nation as suffering from closed-mindedness:

In this age of globalization...room for asserting national sovereignty in economic affairs is sharply diminishing. Following the establishment of the WTO, the flows of capital, technology, goods and services among nations are being rapidly liberalized, opening the doors for boundless global competition...

...Korea's cultural development and traditional value system have lagged more and more behind its increasing material prosperity. Even while its economic activities have become increasingly institutionalized, a large majority of Korean people continue to be bound by nationalistic sentiments bordering on xenophobia.⁷⁴

With a highly competitive neoliberal order awaiting, Kim proposed both economic revitalization and national rejuvenation by making globalization the theme of his government, much as modernization had been for Park Chung Hee.⁷⁵ The

⁷³ These included the collapse of a Seoul bridge, which killed thirty-two, and a Seoul department store collapse that killed more than five-hundred.

⁷⁴ Kim Young Sam, Korea's Quest for Reform & Globalization: Selected Speeches of President Kim Young Sam (Seoul: Presidential Secretariat, the Republic of Korea, 1995) 10.

⁷⁵ Gi-Wook Shin. Ethnic Nationalism in Korea: Genealogy, Politics, and Legacy. Stanford, CA. Stanford UP, 2006) 205.

government's solution was *segzehwa*, a policy of globalization with a Korean character, signified by its retention of its Korean name even in documents translated into English. True to its name, Kim had in mind opportunities for foreign business to make inroads into Korea's markets, but also for major Korean entities to expand at home and abroad.

Segzehwa included an alteration of his approach to the *chaeböl*, the nation's premier engines of growth. Kim had made previous promises of reforming the conglomerates, promoting balanced regional growth, and curbing excessive concentration of wealth. Even previous policies such as the New Five-Year Economic Development Plan in 1993 and the Revisions of the Fair Trade Act earlier in 1994 suggested serious intent to democratize internal *chaeböl* structure and level the field for smaller competitors.⁷⁶ Now the Deregulation Policy of 1995 became representative of Kim's approach. Whereas previous governments set targets for the *chaeböl* to meet and in some cases required them to enter certain sectors, the Kim government no longer directed their activities but allowed them to diversify rapidly, meaning Kim had surrendered part of the restraints Eckert previously identified. As such, the *chaeböl*, with an unreformed management structure, took on an even larger position in the market, justified by efforts to increase their global competitiveness for the sake of national prestige.

Even as he sought to match their performances, Kim failed to correct the mistakes his predecessors had made in the financial sector. Graham writes that, even as Park and Chun were seeking the development of heavy or high-tech industries, they had neglected financial development, something "absolutely essential" to long-term growth

⁷⁶ Kim and Shin 23.

prospects.⁷⁷ Unlike in heavy industries such as steel and shipbuilding, where there had been an extensive process of investment and education, as members of these sectors had been encouraged to learn from more development economies, the financial industry under Park had been nationalized and served as an arm of his development plan. By the 1990s, the banks and financial institutions not directly under government control still had only limited independence, and lacked expertise in providing loans to worthy recipients.

Loans from banks, state-owned or otherwise, flowed to the *chaeböl* in great supply. “Believing in their own invulnerability,” Kim and Shin write, “the most powerful *chaeböl* groups chose to overspend, overborrow, and overexpand.”⁷⁸ Over time, many of the projects for which these loans were issued failed spectacularly, and investigations into certain loans reveal governmental favoritism that struck at the heart of Kim’s reputation for integrity. The *chaeböl*, broadly supportive of Kim’s *segyehwa* agenda, lobbied for him to hasten the process by deregulating the financial and foreign exchange markets, as well as to abolish previous restrictions on trade.

For a time economic indicators responded favorably to the changes. In 1995 the country, with the help of an inflated *wön*, achieved the symbolic status of \$10,000 per capita income.⁷⁹ In 1996, in return for financial market liberalization, Korea obtained membership in the Organization for Economic Cooperation and Development, the second Asian nation after Japan to enter the “rich nations club.” However, the liberalization of financial markets was a complicated process. As Graham has noted, the government

⁷⁷ Graham 3.

⁷⁸ Kim and Shin 24.

⁷⁹ Though this was a symbolic feat, one can understand the value of the symbol, as the per capita income was still in the double digits at the time of Park Chung Hee’s first five-year economic development plan in 1961.

simplified the procedures for deregulating short-term borrowing procedures, while delaying the more complicated process of deregulating long-term borrowing. As such:

The result would be a mismatch between the term structure of liabilities (the short-term debt owed to foreigners) and assets (the long-term investments financed by that debt, if the foreign financing was direct; or, if the foreign funds were intermediated by banks, the loans of the banks to those who made the ultimate investments). Bankers generally see this mismatch as problematic, because if investors who have funded the liabilities were to withdraw their funds, there likely would be no liquid funds available to pay the investors.⁸⁰

Furthermore, the OECD accession process left much of the nation's assets denominated in *wŏn*, but much of its debt owed in US dollars. This, though, would not prove a problem as long as the value of the *wŏn* held.

Also, as support for the *chaebŏl*'s expansionary ambitions continued, the government also shielded their leaders from Kim's efforts to establish the rule of law. While popular outcry led to the prosecutions of ten *chaebŏl* heads in the aftermath of the Roh Tae Woo scandal, an indicative meeting took place in February 6, 1996, in which the president summoned business leaders, including nine of those on trial, to his residence for a dinner meeting. Here, one day after giving a speech in which he repeated his pledge to stamp out corruption and just two days since prosecutors had called for stiff jail terms for

⁸⁰ Graham 99.

the tycoons, the reformist president told them that their legal difficulties had caused him “great heartache.”⁸¹

Observers of the event noted Korea’s lack of judicial independence,⁸² stating that the president’s wishes would likely prove decisive. These observations apparently proved true: the trials for all of businessmen ended in convictions, but their sentences were suspended on appeal, or by the judges who presided over their trials.⁸³ All of them would later receive presidential pardons, including Samsung Electronics chairman Lee Kun Hee, Lee Byung Chull’s heir.⁸⁴ Kim’s treatment of Lee, support for Samsung’s business ventures such as the ill-fated and unnecessary car plant in the Pusan area (Kim’s support base), and public discussion of their possible takeover of Kia in 1997, instead of the customary court receivership, lends credence to Ha Joon Chang’s assertion that Kim had replaced a general policy of support for the *chaebŏl* with favoritism and that certain conglomerates – Chang singles out Samsung – had become “close to the regime.”⁸⁵ Samsung’s literal and metaphorical stock indeed rose under Kim but this broad contention, and others of Chang’s, may be disputed: “general” support for the *chaebŏl* had not prevented Park Chung Hee from favoring certain firms (like Hyundai), and Chang insists that Kim’s tenure is when “crony capitalism” truly began in Korea, something Sunhyuk Kim and Doh Chull Sin insist developed under Park. Chang’s contention that the neutering of the Economic Planning Board (EPB) signified the “death of planning” in Korea has more merit, as Kim did less to direct the activities of the

⁸¹ "Korean President Kim Invites Business Leaders to Dinner," NPR via High Beam Research February 7, 1996 <April 25, 2013. <http://www.highbeam.com/doc/1P1-28469780.html>>.

⁸² Ibid.

⁸³ Graham 91.

⁸⁴ Jun Yang, "Samsung's Family Feud," Bloomberg BusinessWeek June 7, 2012, April 25, 2013 <<http://www.businessweek.com/articles/2012-06-06/samsungs-family-feud>>.

⁸⁵ Ha Joon Chang 1557.

conglomerates than his predecessors, even if the actual effect is more complicated than Chang suggests.

Joo Youn Jung describes the EPB as involved in strategic meetings with President Park Chung Hee in his first decade in power. Park, however, gradually distanced himself from their advice in the 1970s when the agency began calling for more incremental, laissez-faire growth policy.⁸⁶ This conflicted with Park's insistence on rapid industrialization and investment in heavy industries and chemicals to support his ambitions of a "rich nation, strong army." It therefore stands to reason that Kim Young Sam had an objective differing from the implementation of laissez-faire capitalism.

According to Kim and Shin, Kim Young Sam relied on "decretistic (i.e., by decree) populism" to accomplish goals even he, with his majority in the legislature, could not easily accomplish through democracy itself;⁸⁷ the Real-Name Financial Transactions System, for example. In their telling, reactionary elements in Korean society could eventually overcome Kim's objectives, as he relied on the office of the president to accomplish his objectives rather than build up democratic institutions that would give such reforms greater longevity. Choong Nam Kim has written that Kim, early in his term, spoke privately of his desire to be remembered as an "outstanding president."⁸⁸ As the first democratically elected civilian president in decades, this would require reforms, but in a nation accustomed to rapid growth and a democracy in which failure to meet expectations could be punished by losses in local elections and a diminishing mandate, it

⁸⁶ Joo Youn Jung, "How a Powerful Bureaucracy Fell: The Abolition of the Economic Planning Board in South Korea," *Korea Observer* Fall 2011: 566.

⁸⁷ Kim and Shin 29.

⁸⁸ Choong Nam Kim 259.

also required economic successes. Ultimately, Kim gave up essential reform to purchase temporary economic success and achieved neither.

In 1995, his decision to reinstitute local elections for the first time since the 1961 coup was rewarded with embarrassing losses for his party. The chairman of the conservative bloc, Kim Jong Pil, defected to start his own party. That same year, Kim's reputation as a warrior for clean government faced its first test when Kim Dae Jung announced that he had received close to \$2.5 million from then-President Roh during the 1992 election.⁸⁹ He charged that Kim Young Sam, as the candidate from Roh's own party, would also have received money from one of the presidents he, upon assuming office, condemned and delegitimized. In response to the allegations, the typically transparent Kim Young Sam refused to release records from the 1992 campaign.

The salvation of Kim's mandate arrived through the revelations of Roh Tae Woo's corruption. In the early years of his term, Kim had declined to pursue prosecution of either Chun or Roh for the 1979 coup or the massacre at Kwangju. The decision outraged activist groups and relatives of the victims, who formally registered a complaint with the Constitutional Court. Before the court ruled, however, the discovery of Roh and the Daewoo chairman's collusion came to light, prompting an outcry that gave Kim cover to change positions. Even though the fifteen-year statute of limitations on Kwangju had expired just months earlier, Kim ordered the assembly to pass a special law allowing for the "truth" of the 1979 and 1980 events to be uncovered, paving the way for the

⁸⁹ Choong Nam Kim 292.

prosecutions of Chun and Roh despite the Constitution's prohibition of *ex post facto* laws.⁹⁰

The overwhelmingly popular decision – it passed the assembly 225-20 – made Kim a politician reborn. Following a vigorous 1996 campaign season, Kim's party maintained their legislative majority. The courts convicted Chun and Roh that same year, with the latter receiving a twenty-two year sentence and the former sentenced to death.⁹¹ Kim's resurgence would be short-lived, however.

3.3 – The Results, 1997-1998

Following the bankruptcy of Hanbo Steel in early 1997, an investigation revealed that legislators and staff close to Kim Young Sam had pressured banks into issuing loans worth \$6.2 billion, or twenty times Hanbo's net worth. A torrent of allegations followed, including that the president's son, Kim Hyun Chul, had leaned on banks to pour money into a Hanbo steel mill project.⁹² The younger Kim eventually faced prosecution for charges of tax evasion and taking bribes from small businessmen, relatively minor offenses compared to the rumors of widespread election-rigging that surrounded him.⁹³

Nonetheless, his guilt sank the reputation of his father. Kim Young Sam no longer appeared a genuine champion of integrity in government and, following a shameful public apology, he spent much of 1997 out of the political limelight. Sung Deuk Hahm and Kwang Woong Kim said of the civilian president that, when he had political

⁹⁰ David M. Waters, "Korean Constitutionalism and the Special Act to Prosecute Former Presidents Chun Doo Hwan and Roh Tae-woo," *Columbia Journal of Asian Law* 1996: 461.

⁹¹ Both former presidents would have their sentences commuted by Kim in December 1997.

⁹² At around the same time Hyundai, chaired by Kim's former political nemesis Chung Ju Yung, was denied entry into the steel industry.

⁹³ Kyung-Sup Chang, "Compressed Modernity and Its Discontents: South Korean Society in Transition," *Economy and Society* 1999: 34-35.

capital, he had spent too much time on “symbolic” reforms and too eagerly embraced authoritarian measures. “... the [Kim] administration,” they write, “has become associated with practices that the public expected to be a thing of the past.”⁹⁴ In retrospect, what anti-corruption efforts he undertook appear all too convenient: most government and military officials punished in the early days of his administration acquired their experience under the prior administrations Kim condemned. Chung Ju Yung had opposed Kim in the contentious 1992 election, at one point describing Kim as having “limited intelligence.”⁹⁵ Park Tae Joon’s POSCO had been central to the ambitions of Kim’s old enemy, Park Chung Hee, and he had considered running against Kim for the ruling party’s nomination in 1992.

Yet, by the summer of 1997, and despite the difficulties of Kia and Hanbo, strong growth continued and it appeared that no crisis was imminent. Kim’s tenure might have been regarded as a disappointing, rather than disastrous, period had it not been for international developments. Starting in July, Thailand required international assistance to meet its debts, then Indonesia’s currency sank in value. Korean financial institutions, having lent generously to Indonesian banks, suddenly faced contagion. Soon the Hong Kong Stock Exchange plummeted and investors’ confidence in Asian economies evaporated. Continuing efforts to prop up the *wŏn* failed.

In August, before the worst of the crisis had set in, Kim proposed reform of the financial system to make it more transparent and maintain the confidence of investors. The Ministry of Finance and Economy, the Bank of Korea, and the National Assembly all

⁹⁴ Sung Deuk Hahm and Kwang Woong Kim, "Institutional Reforms and Democratization in Korea: The Case of the Kim Young Sam Administration, 1993-1998," Governance October 1999: 491.

⁹⁵ Graham 89.

rebuffed the request of the diminished president. By the time the true extent of the crisis had become evident it was too late. The financial crisis left Korea with debts of \$24.6 billion that required payment immediately and another \$14.9 billion that would need paying by the end of January. Furthermore, with Korea's assets denominated in *wŏn* and its debt in dollars, the sinking of the *wŏn*'s value from 900 to the dollar in October to 2,067 by December 23 meant those bills could not be repaid.⁹⁶

The crisis provided an opportunity for Kim Dae Jung who, at age 73, was pursuing the presidency for the fourth time. After a fracture in the ruling camp caused Lee In Je to split off and pursue a third-party run, Kim Dae Jung shored up his chances of winning the presidency, interestingly enough, by allying with former Park Chung Hee confidant Kim Jong Pil. He thus overcame Lee Hoi Chang, the former chief justice of the Supreme Court and former prime minister under Kim Young Sam, by a margin of one and a half percent, still the closest presidential race in the nation's history. His objectives upon taking office included reform of the *chaebŏl* who, given their role in an economic national disaster, looked particularly vulnerable to political pressure at this juncture.

⁹⁶ Ibid. 106-107.

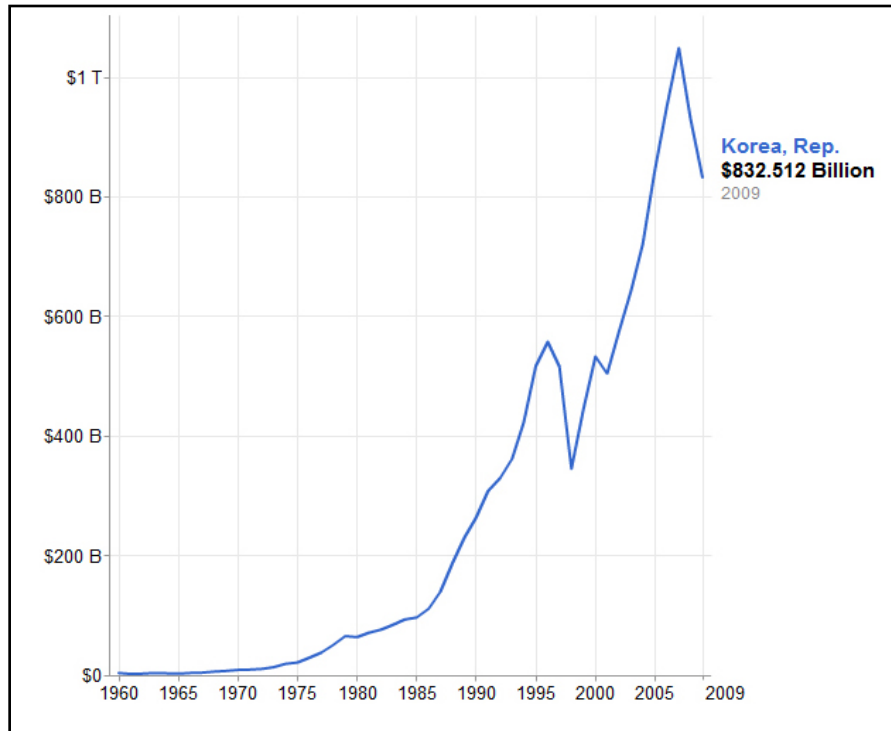


FIGURE 3 South Korea's GDP growth, 1960-2009.

Source: US Global Leadership Coalition, <http://www.usglc.org/2011/10/06/the-south-korea-story-from-war-torn-state-to-strong-american-partner/>

Korean presidents, however, would never again have as strong a hand to play as Kim Young Sam's. In a country with a newly-won democracy he had credibility as a opponent of dictatorship; in a nation with an anti-communist history he had no ties to leftist activism. He had entered office with an almost universally supported agenda, and his party kept control of the legislature through his entire five-year term. His progressive successors had similar credibility as advocates for democracy during dictatorship, but faced a far more polarized political scene and suspicions about their backgrounds. Years later, when the political right regained the presidency, Korea's economic landscape had changed substantially, as had the priorities of the electorate.

CHAPTER 4 – *CHAEBŎL* REFORM SINCE KIM YOUNG SAM

4.1 – Kim Dae Jung – 1998-2003

Kim Dae Jung provides perhaps the best example of the post-Kim Young Sam president, as his decades-long advocacy for Korean democracy made him a figure revered by many, but deeply distrusted by others. “His strong anti-[Park Chung Hee] rhetoric attracted a large progressive and radical following,” Choong Nam Kim writes. “Thus, Kim acquired a reputation for being radical and even dangerous.”⁹⁷

Furthermore, Kim benefited and suffered from the stigma of regional politics, as his deep connections with the Chŏlla region gave him a devoted base of support but also earned him the suspicions of other regions. Despite the calamities of the financial crisis (and Kim Young Sam’s decimation of the ruling camp through his anti-corruption purges), Kim Dae Jung had won the 1997 election only through the fracturing of the conservative party, plus his alliance with Kim Jong Pil. In exchange for the support of his new compatriot’s United Liberal Democrats and their Ch’ungch’ŏng regional support base, Kim Dae Jung promised Kim Jong Pil the office of prime minister once he took office. Even with all this, Kim’s tiny margin of victory gave him limited political capital.

In his time abroad in exile, though, Kim acquired an appreciation for economic liberalization, particularly during his time in Britain, where he witnessed Tony Blair’s Third Way, New Labour policies.⁹⁸ Also, thanks to his skills as a politician and his adroit reaction to the crisis, he achieved some notable successes. In December 1997, two days after the election, with Kim Young Sam inspiring no faith domestically or abroad, the

⁹⁷ Choong Nam Kim 313.

⁹⁸ Jesook Song, *South Koreans in the Debt Crisis: The Creation of a Neoliberal Welfare Society* (Durham, NC, and London: Duke University Press, 2009) 7.

transition process began. The two Kims met, forming a crisis resolution committee made up of their respective aides, and then Kim Dae Jung went to work phoning heads of state in the United States and Japan, promising his commitment to resolving the crisis and asking for their assistance.

Kim, who had spent three years in the United States following his first presidential defeat in 1971 and who had a US-educated wife, showed more comfort with US officials than his predecessor, convincing them to rollover \$24 billion of Korea's debt, giving them a longer timetable for paying it back. Then, in early February, Kim used his long-standing connections with the labor movement and Korea's critical economic circumstances to negotiate a "grand compromise" between labor and business leaders, something Kim Young Sam had failed to do in five years.

By the time Kim Dae Jung took office in February, he had already resolved much of the crisis that Kim Young Sam's administration had left him. Along the way, he met with the heads of the four largest *chaebŏl* and began his call for them to restructure their operations. They agreed, as did a group of smaller *chaebŏl* leaders at a second meeting that month.⁹⁹

For the next couple of years, though, Kim Dae Jung walked a fine line between reviving the national economy and fulfilling his promise of economic reform. He enacted some significant measures: the grand compromise he negotiated with labor groups had, finally, allowed management to lay off workers if necessary. The new broadly empowered Financial Supervisory Commission exercised its new power to strip

⁹⁹ Choong Nam Kim 316-318.

insurance firms of their licenses, allow banks to fail, and pressure *chaebö* into downsizing and controlling their debt levels through threats of restricted access to credit.

Chaebö debt levels dropped an average of twenty-six percent, and the recalcitrant Daewoo Group was broken up. Still, Kim's *chaebö* policy is considered mixed: central to Kim's policy toward them was his idea of Big Deals, under which struggling *chaebö* groups faced pressure to negotiate mergers with similar groups in stronger financial shape. This voluntary (but strongly encouraged) program was difficult to put into practice, though, as the *chaebö* groups had only partial success in reaching agreements. Furthermore, Kim did little to correct their monopolistic position in the market, as their equity holdings expanded 126 percent in the two years following the crisis. As Choong Nam Kim writes: "The Big Deals did not address the main economic problems of the *chaebö*, such as excesses in capacity, debt, and workforce."¹⁰⁰

Much as was the case in the Kim Young Sam years, Kim Dae Jung accomplished the most domestically, particularly in dealing with the *chaebö*, in the first two years of his presidency. In 1999, as economic activity began to pick up, Kim declared the financial crisis over, leaving additional tough measures unfinished. Then, in 2000, Kim had his historic summit with North Korean leader Kim Jong Il, after which his conciliatory Sunshine Policy became his focus. This may have been partially because he could still play a leading role in foreign policy: in Assembly elections that same year, the coalition partners for his Millennium Democratic Party, Kim Jong Pil's United Liberal Democratic Party, were crushed in the Ch'ungch'öng region, giving conservatives opposed to Kim's agenda control of the legislature.

¹⁰⁰ Choong Nam Kim 325.

4.2 – Roh Moo Hyun – 2003-2008

In April 2003 the *Economist* gave Kim Dae Jung credit for a change in the structure of the family-owned conglomerates, but a sense of dissatisfaction with the reform efforts was noted. “The reason [the *chaebŏl*] are coming under fire is not that they have failed to reform their businesses, but that their founding families continue to show disdain for the rule of law as well as for minority investors.” It continued:

“... some [*chaebŏl*] have continued to shuffle the profits from some of their publicly listed firms, trying to keep any gains out of the reach of both investors and the taxman. Minority shareholders cannot stop them because the families still own controlling interests in many publicly traded firms, even though their direct equity stakes are small. According to Jang [Ha Sung], a finance professor at Yonsei University in Seoul, in 2001 the top ten [*chaebŏl*] families on average owned only 4.3% of the shares in their group companies, down from 9.5% in 1997. But, reckons ... Jang, they actually controlled 47.6% of the shares in those firms, by exploiting chains of subsidiaries to buy more shares in the parent firms.”¹⁰¹

Left to take on the remaining problems was Kim Dae Jung’s successor, Roh Moo Hyun, who had reached the presidency through a combination of democratic idealism and independence. Establishing his reputation as a lawyer defending pro-democratic

¹⁰¹ "Unfinished Business: Reform of the Chaebol Is Only Half-way There." *The Economist* August 17, 2003, March 13, 2013 <http://www.economist.com/node/1697767?story_id=1697767>.

protestors in the 1980s, he joined Kim Young Sam's party and won an Assembly seat in 1988, only to quit the party two years later when Kim merged his bloc with Roh Tae Woo's. Roh Moo Hyun later joined Kim Dae Jung's party and served in his presidential administration, establishing a loyal following by speaking out against regionalism in Korean politics. His following grew as discontent with the US-South Korean alliance festered, and Roh's willingness to criticize the South Korea's long-time ally ultimately aided his quest for the presidency in 2002.

In his campaign, Roh made three promises regarding *chaeböl* governance.¹⁰² First, he pledged to close tax loopholes, thus preventing the families in control of the conglomerates from avoiding gift and inheritance taxes. Second, he planned to allow small shareholders to sue firms performing deals against the minority interests in court. Finally, he sought to bar industrial companies from owning financial subsidiaries.

The Economist warned that the execution of these plans, especially the third, would require a pragmatic approach. Upon election, though, Roh displayed little of this quality, at one point promising to achieve seven percent economic growth per annum for ten years while conducting *chaeböl* reform, an obvious contradiction. Furthermore, he lacked Kim Dae Jung's political savvy, and spent much of his term pursuing politicized objectives including the "rectification of history" – i.e., identifying the descendants of collaborators from the Japanese colonial period, the insinuation being that this would discredit the conservative party – and the construction of several administrative and business cities, built around the idea of making Korea an economic hub of Northeast Asia.

¹⁰² Economist

Also, the implosion of Kim Young Sam's presidency may have denied conservatives the executive branch two terms in a row, but their party maintained its legislative presence. Indeed the political climate had become even more poisoned following the Kim Dae Jung years, making broad social reforms such as those required to rein in the *chaeböl* difficult. Roh had won the presidency through brave activism and novel ideas, but was nonetheless fortunate to be there: he had won a narrow come-from-behind victory in 2002 over the perpetually unlucky Lee Hoi Chang, capitalizing on a spike in anti-American sentiment following the accidental death of two schoolgirls struck by a US military vehicle that summer. Once in office, Roh struggled with an economy that did not meet expectations, due in part to a slowdown in consumption brought on by his predecessor's loosening of credit card restrictions.¹⁰³ Furthermore, unlike Kim Young Sam, Roh struggled with a National Assembly dominated by a conservative majority for much of his term, leaving him unable to address problems like growing unemployment among young people (see fig. 4). One trait he shared his former party leader was idealistic sloganeering unaccompanied by management experience, which led to ongoing criticisms of incompetence and low popularity ratings, paving the way for a change of hands in the 2007 elections.

¹⁰³ Choong Nam Kim 371-373.

Year	Japan	Republic of Korea	Russia
2002	10.0 (5.6)	8.5 (3.4)	16.1 (7.9)
2003	10.2 (5.4)	10.1 (3.7)	17.5 (8.0)
2004	9.5 (4.9)	10.5 (3.8)	17.2 (7.8)
2005	8.6 (4.6)	10.2 (3.9)	15.7 (7.2)
2006	8.0 (4.3)	10.0 (3.6)	16.5 (7.2)
2007	7.7 (4.1)	8.8 (3.4)	14.5 (6.1)
2008	7.2 (4.2)	9.3 (3.3)	14.1 (6.3)
2009	9.1 (5.3)	9.8 (3.8)	N/A

Source: For Japan and RoK, OECD. For Russia, ILO LABORSTA database. (No comparable data available for China, DPRK and Mongolia.)

FIGURE 4 – Youth Unemployment vs. Overall Unemployment by Country, 2002-2009

Source: United Nations Escap. http://enea.unescap.org/newsletter/youth_unemployment.html

4.3 – Lee Myung Bak: 2008-2013

After ten years of liberal rule, the 2007 presidential election placed one of the *chaeböl*'s own, former Hyundai executive Lee Myung Bak, in the Blue House. Had he so desired, Lee would have been in better position to attain their reform, as he enjoyed massive majorities in the Assembly throughout his term, and despite taking just forty-nine percent of the vote¹⁰⁴ vanquished his nearest competitor by twenty-two points. Roh's undertow had sunk the opposition, which had difficulty even settling on a party name throughout much of the Lee administration.

The election of Lee, however, represented a stark shift in the voting public's priorities. Optimism regarding peaceful reunification with the North that had buffeted

¹⁰⁴ His capturing of an outright majority seems certain had not Lee Hoi Chang launched a third party bid that won fifteen percent.

Kim Dae Jung and Roh Moo Hyun now inspired indifference among voters who were concerned about slowing growth – now settling in at less than four and a half percent – and the persistent problem of youth unemployment. As such, economic democratization and *chaebŏl* reform were no longer prioritized.

Furthermore, Lee was no center-right reformer in the mold of Kim Young Sam: he was elected on promises to use his management experience to revive the economy, even though he echoed Roh Moo Hyun’s promise of seven percent annual growth. Later in 2008, promises of this sort would be abandoned following the failure of Lehman Brothers and subsequent worldwide financial crisis. From there, Lee changed focus, adopting “fair society” as his government’s priority, stating that he would curb long-standing tendencies such as nepotism.

Criticism that his policies favored the wealthy would persist throughout his administration, however, and this would extend beyond economics. In fact, if Lee made any lasting contribution to *chaebŏl* policy, it came when he issued Samsung chairman Lee Kun Hee a special amnesty in late 2009. A year earlier the Samsung executive had received a three-year suspended sentence, this time for embezzlement and tax evasion, as well as a fine of 110 billion won despite prosecutors’ request for a seven-year sentence and 350 billion won fine.¹⁰⁵

Amnesty for those convicted of crimes is a centuries-old tradition in Korea, usually coinciding with major holidays. Since the foundation of the Republic of Korea, it has taken the form of the presidential pardon, usually used in the form of a general amnesty, which clears the records of several people at a time after they have served the

¹⁰⁵ Sang-hun Choe, "Korean Leader Pardons Samsung’s Ex-Chairman," New York Times December 29, 2009, May 06, 2013 <http://www.nytimes.com/2009/12/30/business/global/30samsung.html?_r=0>.

bulk of their sentence or saving them from the death penalty. In this case, though, Lee Myung Bak granted a special amnesty, a pardon for one person in particular. He also gave it not to a little-known felon who had served the bulk of his sentence; but to the head of the largest *chaeböl* who had spent not one day in jail.

In addition to Samsung's overall importance to Korea's economy, Lee Myung Bak justified the pardon by stating that it would enable Lee Kun Hee to serve on the committee seeking the bid for Korea to host the Winter Olympics in 2018. The pardon, however, gave Lee Kun Hee the freedom to return to the helm at Samsung, and the use of the presidential pardon to help a specific member of the business elite had little precedent. One example that could be found, though, was Kim Young Sam's general amnesty of the ten *chaeböl* leaders in 1997 as his *seggyehwa* policy sought to foster expansion at home and abroad. That the pardon had not frequently been used for this purpose prior to Kim's administration is not a credit to his predecessors, who had such close relations with business leaders that criminal cases stemming from their business practices were rare. Nonetheless, it opened a new avenue for the wealthy to benefit from political contributions and gave an extra sheen to their veneer of indispensability – one that even proof of lawbreaking could not remove.

In the aftermath of Kim Young Sam, Korea's presidents have been a diverse lot. However, in terms of *chaeböl* reform, each has provided an example of what will not work. For one thing, meaningful change cannot come if the president, regardless of ideological sympathies, cannot maintain control of the legislature. On the other hand, a president well-positioned politically is unlikely to effect reform if they do not consider it a priority. A president determined to carry out reform of their practices would need to be

convinced of the necessity of reform, and would need a compliant public and Assembly behind her. To have that may require a fundamental reexamination of the *chaebŏl*'s role in Korea's success.

CHAPTER 5 – GROWTH WITHOUT GIANTS: THE TAIWAN COMPARISON

5.1 – The *Chaeböl* Myths

In the 2012 election Korea had three presidential candidates of note. The conservative party nominated Park Chung Hee’s daughter, Park Geun Hye, who by then had carved out a legacy of her own as Korea’s “queen of elections,” thanks to successful stints chairing the party during legislative campaigns. Her primary opposition came from the progressive party nominee, Moon Jae In, former presidential chief of staff to Roh Moo Hyun,¹⁰⁶ but a third-party candidate, software entrepreneur Ahn Cheol Soo also entered the race promising a “new politics.”

Leaning progressive, Ahn eventually ended his third party run in deference to Moon – who had the advantages of a full party behind him – but during his campaign joined in criticizing the practices of large business groups.¹⁰⁷ With Lee Myung Bak’s presidency sputtering to its conclusion and the effects of the 2008 crisis still weighing on growth rates, concern over the *chaeböl* and the economic income gap had returned to prominence. Ever the astute political observer, Park recognized this development.

"We haven't paid enough attention to fairness," she said with about a month left in the race. "[Big companies] can invest and create jobs, but they also have some bad practices – they concentrate their business among their own groups, they snatch technology from small companies, and they enforce prices."¹⁰⁸ With Park’s election at the

¹⁰⁶ Though he left office deeply unpopular, Roh’s reputation has surged among progressives following his 2009 suicide in response to a grueling bribery investigation, which his supporters claimed was politically motivated.

¹⁰⁷ Hyung-Jin Kim, “South Korean Software Mogul Hopes for Presidency,” The Associated Press October 4, 2012, March 28, 2014 <<http://news.yahoo.com/south-korean-software-mogul-hopes-presidency-092518049--finance.html>>.

¹⁰⁸ Lucy Williamson, “Chaebol Debate Rages in S Korean Election,” BBC News December 18, 2012, May 02, 2013 <<http://www.bbc.co.uk/news/business-20752804>>.

end of 2012, and her party's continuing command of the National Assembly, was Korea finally ripe for *chaebŏl* reform? Possibly, but such sentiment was not universal: early in her term, members of Park's party began to protest,¹⁰⁹ as did the conservative media. "Let the *chaebŏl* do their job," declared the editorial page of the *JoongAng Daily*,¹¹⁰ warning that "urgent action" was needed to kick-start the national economy, and that efforts hindering the *chaebŏl* would prevent such action. Such statements assume several things.

For one, they presume that South Korea's economy is not growing like it used to due to policy decisions. The track record of other Asian economies suggests otherwise; Paul Krugman, for one, has opined that growth rates among the Asian miracle economies were due to an extraordinary mobilization of resources that cannot be repeated¹¹¹ and recent economic trends in Asia – particularly in Japan since the "lost generation" beginning in the 1990s – are consistent with this view. Two, it assumes that "urgent action," presumably led by the *chaebŏl*, is by definition good for the country, even though the Asian Financial Crisis followed a period in which the *chaebŏl*'s profligate borrowing had been encouraged to support all manner of domestic and international expansion. Proclamations such as the *JoongAng*'s would be problematic on the basis of those assumptions alone.

The most troubling supposition, though, may be that the *chaebŏl*, specifically, are indispensable in Korea's economy. This belief can be traced to the developmental period and the narrative that has emerged: from 1961 on, Seoul went from being the

¹⁰⁹ Su-hyun Song and Jeong-wan Joo, "Chaebol Defenders Start to Surface," *JoongAng Daily*. April 13, 2013, April 13, 2013 <<http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=2970103>>.

¹¹⁰ "Let the Chaebol Do Their Job," *JoongAng Daily* April 17, 2013, April 25, 2013 <<http://koreajoongangdaily.joinsmsn.com/news/article/Article.aspx?aid=2970290>>.

¹¹¹ Paul Krugman. "The myth of Asia's miracle." *Foreign Affairs*. 1994: 64-65

economically and militarily inferior of the two Koreas to a global economic powerhouse. It did this in a remarkably short period thanks to Park Chung Hee's leadership, his willingness to use any means – including profoundly undemocratic ones – necessary, and thanks to the businessmen who followed his directions. The brands these businessmen built, such as Samsung and Hyundai, are now known the world over and should now be a source of pride for Korea. Or so the story goes.

While the literature surrounding Korea's economic development, and the *chaeböl* more narrowly, has noted their role in the nation's economic miracle, the necessity of large, family-owned conglomerates in this growth has not been challenged. Namely, what this chapter asks is: 1) were there options available other than support for the massive corporations in transforming Korea's economy, 2) did fostering the growth of a handful of massive companies create problems that other countries, with similar growth, have avoided, and 3) with another strategy could Korea's leaders, during its developmental period, have achieved similar results? If the answer to these questions is yes, Korea should dismiss notions that restoring the economy is the *chaeböl*'s "job" at all; much less one that cannot be interrupted.

To find our answers, it is useful to examine nations that achieved similar growth rates while dealing with initial conditions much like Korea's. Several nations, particularly in East Asia, became economic marvels during similar periods of time, and often did so employing similar policies, namely export promotion. A look at Taiwan, the nation whose development story is perhaps most similar to South Korea's, and yet whose business world has produced no entities comparable to the *chaeböl* in size, is therefore instructive. As once was true of the Republic of Korea, authoritarian leadership

dominated the Republic of China in its first few decades, and in both countries the leader’s success in strengthening the citizenry’s economic clout (see fig. 5) also strengthened their role in society, paradoxically making future governments less authoritarian.

Numerous differences in the environments of these two nations, but particularly in their early leadership, led to divergences in how they conducted economic policy, however. While both policies can claim numerous successes, this chapter will show that the prominence of the wealthy clans has given Korea a vulnerability to external shock, one Taiwan did not share. Furthermore, despite Park Chung Hee’s instrumental role in their expansion, it will also demonstrate that the *chaeböl* are as much the products of Syngman Rhee’s incompetence and corruption – at least relative to the early leadership of Taipei – as Park’s preferential treatment.

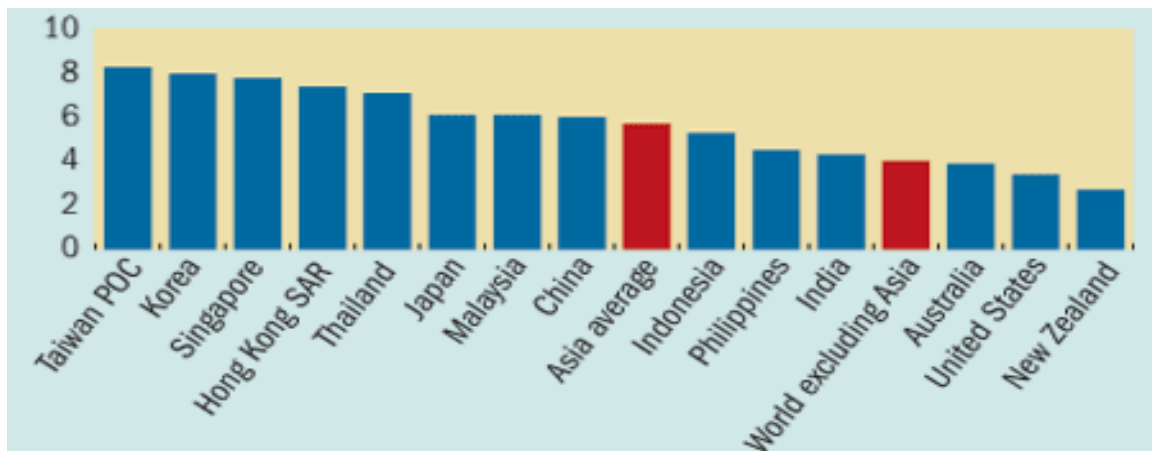


FIGURE 5 – Average annual growth percentages from 1950-1997

The International Monetary Fund (<http://www.imf.org/external/pubs/ft/fandd/2006/06/burton.htm>)

5.2 – Why Taiwan?

Ezra Vogel places Park Chung Hee on his list of the four “great Asian rebuilders” of the twentieth century,¹¹² alongside Turkey’s Mustafa Kemal, China’s Deng Xiaoping, and Lee Kuan Yew of Singapore. Taiwan’s Chiang Kai-shek did not make Vogel’s list, but the island nation and South Korea gained prominence as two of the four Asian Tigers,¹¹³ relatively small East Asian economies that grew explosively in the post-war period. These states all succeeded in creating much higher standards of living for their people, eventually drawing international attention to and foreign participation in their economic activities.

Other comparisons abound, including to the largest economic/military players in the region. Like Park Chung Hee, China’s Deng Xiaoping showed willingness to use repressive force to accomplish his objectives, and as with Park had his plans continued (with some modifications) by his successors in power. Like Korea, pre-war Japan’s growth had the goal of making it powerful enough to confront an external threat, and, as stated previously, had its growth driven by family-owned conglomerates. Post-war Japan, on the other hand, achieved growth rates essentially identical¹¹⁴ to what Korea would later post, and their non-family-owned corporations, the *keiretsu* may indicate how to transition away from the family ownership issues of massive companies. Why, then, is Taiwan the best comparison vis-à-vis Korea when discussing the *chaeböl*?

For starters, among the criticisms of the *chaeböl* is their top-down structures, a critique leveled by Beck and Chan Sup Chang, as well as Kim and Shin.¹¹⁵ Observers

¹¹² Ezra Vogel, “Nation Rebuilders: Mustafa Kemal Atatürk, Lee Kuan Yew, Deng Xiaoping, and Park Chung Hee,” in The Park Chung Hee Era: The Transformation of South Korea, ed. Ezra Vogle and Byong-Kook Kim (Cambridge, MA: Harvard UP, 2011) 513.

¹¹³ The others being Hong Kong and Singapore.

¹¹⁴ Beck 1018.

¹¹⁵ Kim and Shin 19.

widely consider this a relic of the authoritarian era that produced them, as it was insisted that they take part in massive expenditures in areas of the state's choosing. With the subsequent support of the state, they lacked incentive to be responsive to labor unrest, foreign competition, and even tight budgeting to prevent bankruptcy.¹¹⁶ Their top-down structure has been cited in previous studies; Beck, for instance, has noted how the chairman of Hyundai and Halla, for example, dominated the companies they presided over, to the point that executives' job descriptions were merely to "carry out [the chairman's] ideas."¹¹⁷ This authoritarianism makes Hong Kong and post-war Japan less instructive comparisons.

Also, while there are numerous reasons why all of these states found development advantageous, not all of them were concerned about their very survival. Even though both started with the support of the United States, at times figures within the US government expressed skepticism about Korea¹¹⁸ and Taiwan's¹¹⁹ potential for development and style of leadership, and considered withdrawing support,¹²⁰ making their policy successes all the more crucial. In addition to numerous differences in policies enacted and initial conditions, the different security environment makes nations such as Singapore and Kemal's Turkey less than ideal comparisons, as we have less reason to believe that these regimes would have been consumed by another state had they failed. Also, while Deng's China and Meiji-era Japan sought to become greater powers on the

¹¹⁶ Woo-Cumings 10.

¹¹⁷ Beck 1024.

¹¹⁸ Choong Nam Kim 96.

¹¹⁹ Jay Taylor, "The Island," in *The Generalissimo: Chiang Kai-shek and the Struggle for Modern China* (Cambridge, MA: Belknap of Harvard UP, 2009) 413.

¹²⁰ In Taipei's case it largely did, though well after the Taiwan Miracle had taken shape.

world stage, there is little reason to believe they feared annexation and the destruction of their states in the event of failure.

This leaves us with Taiwan. Like South Korea it enjoyed financial and military backing from the US and the leadership of the ruling party, the Kuomintang, was not afraid to use harsh methods to maintain order. Like Seoul, Taipei also badly needed growth to ensure that it would not be assimilated by a rival state with a larger military. Other similarities help: both are heavily influenced by Confucian culture frequently credited for instilling work ethic and a hunger for education, both had been colonies of Japan for decades prior to their developmental periods, and they grew by similar rates at nearly the same period of time. Once this progress had been achieved both made the transition to democratic governance and wielded a stronger bargaining position in dealing with their rival state.

As such, numerous comparisons between Korean and Taiwan have already been made. Gregory Noble links their policies and conditions even after cautioning against use of an East Asian model,¹²¹ while Scitovsky makes the aforementioned comparisons about their Confucian background,¹²² and Ha Joon Chang lists them as success stories in industrial policy.¹²³ However, while their divergent policies have been explored before, the question of what caused their divergent policies in the first place deserves greater attention. Another question this chapter will answer is whether both approaches were similarly effective in achieving the results Korea takes so much pride in: rapid growth, security, and democratization.

¹²¹ 603

¹²² 219

¹²³ Chang 227.

5.3 – Initial Conditions

The similarities between the two countries in this period are numerous: Decades of Japanese dominance left both countries with industrial facilities and a network of roads and infrastructure the former colonies put to use after their liberation. Still, neither nation possessed rich amounts of natural resources and both were dealing with a tenuous security environment. However, in order to prevent the spread of communism, both benefitted from considerable sums of aid from the United States to maintain their growth.

Furthermore, early in the post-war period, the governments of both nations established that they would not hesitate to use their authority ruthlessly: Chiang Kai-shek's Kuomintang liquidated potential critics of the government in 1947 and again in 1949, with the death toll surpassing ten-thousand the first time¹²⁴ and one-thousand in the second.¹²⁵ Repression of suspected communists and other leftist groups marked Syngman Rhee's rule over Korea, most notably in the Jeju Uprising of April-May 1948, which the government quelled by killing at least 14,000 (and possibly tens of thousands more).¹²⁶

The two countries differed in many ways, though. Both could claim roads and infrastructure left behind by decades of Japanese occupation, but Taiwan enjoyed a system of roads that made travel in and among its cities easier. Unlike Korea's more centralized infrastructure, which contributed to unbalanced development (despite government efforts), a more evenly distributed network¹²⁷ of roads and infrastructure on

¹²⁴ Thomas B. Gold, State and Society in the Taiwan Miracle (Armonk, NY: M.E. Sharpe, 1986) 51.

¹²⁵ Taylor 412.

¹²⁶ "Ghosts of Cheju," Newsweek June 18, 2000, March 25, 2014 <<http://www.newsweek.com/ghosts-cheju-160665>>.

¹²⁷ Scitovsky 229.

the Formosa would enable the Taiwanese people to develop their nation in a decentralized manner. Samuel P.S. Ho writes that, as a result, non-urban industry grew almost as expansively as that of the cities,¹²⁸ and agricultural workers had more options, including commuting to other jobs when farming was not in peak season.¹²⁹ Furthermore, Taiwan was not itself divided and thus had access to all of the industrial facilities Imperial Japan had left behind; in divided Korea, most such facilities were in the North, where more mineral reserves could be found.

The Taiwanese populace may not have suffered from the internal divisions of Korea's early days; Koreans intent on freeing their nation from Japanese rule had themselves been divided between communists and nationalists, who at first formed an uneasy alliance that eventually devolved into outright hostility.¹³⁰ The expansive death toll resulting from the Jeju Uprising and leftist uprisings in provinces near the very south of the Korean Peninsula suggest that this ideological struggle afflicted Korea in a way it would not Taiwan. Still, Chiang Kai-shek's Kuomintang shown greater success in establishing effective leadership early on, while South Korea grew progressively more frustrated with Rhee's leadership.

That Chiang should prove to be the more effective, popular leader would probably have surprised many in 1949. Syngman Rhee had spent 1919 to 1925 as president of the Provisional Government of the Republic of Korea, the China-based government-in-exile that refused to recognize Japan's claim to the Korean Peninsula. By the time of his election as president of the ROK in 1948 he was 73, and had spent

¹²⁸ Samuel PS Ho, "Decentralized industrialization and rural development: evidence from Taiwan," Economic Development and Cultural Change 1979: 78.

¹²⁹ Scitovsky 222.

¹³⁰ Gi-Wook Shin 59-63.

practically all of his adult life abroad, advocating for Korean independence. The Kuomintang, on the other hand, consisted of Chinese mainlanders the native Taiwanese distrusted upon their arrival.

In addition to their differences in origin, the Taiwanese had reason to be wary of Kuomintang leadership; Rhee may have had no experience managing anything but a figurehead protest government, but Chiang's previous leadership experience had been an unqualified disaster: having assumed leadership of the Kuomintang and thus all of China from beloved nationalist leader Sun Yat-sen, Chiang gradually lost control over the mainland over the course of two decades through runaway inflation, a link in popular opinion between the Kuomintang and prominent corrupt "capitalists,"¹³¹ as well as souring public opinion regarding their violent methods.¹³² The Kuomintang's early policies on Taiwan, though, established that they had learned from their mistakes, and help set Taiwan apart from Korea's development.

5.4 – Initial Leadership

The differences in economic policy are closely linked to a wholly different governing style among the Kuomintang. Not long after their arrival on the Formosa, the Kuomintang issued a blanket apology for leadership failures on the mainland. They promised to purge corrupt elements from their midst, employ native Taiwanese in their governing, and strengthen internal discipline. They also established oversight of financial matters in the military to prevent graft and other abuses. Somewhat fortunately, their

¹³¹ Park 18.

¹³² Gold 57.

most corrupt members had not arrived with them from the mainland; the Kuomintang made an example of one who did, Ch'en Yi, by executing him.¹³³

Plus, their early economic policy decisions did much to help the native Taiwanese: enacting what had been a Kuomintang principle since Sun Yat-sen's foundation of the party, they carried out a meticulously organized land reform which peacefully¹³⁴ reorganized society. Land formerly belonging to Japanese government or individuals was sold to tenant farmers on the cheap and landowners who had their property seized were compensated with bonds and shares in government corporations.¹³⁵ Land owned by Japanese government, businesses, or individuals amounted to two-thirds of the island, and by distributing it among the public in this way they built a substantial support base among the natives.¹³⁶

Though largely consisting of mainlanders, the party began integrating thousands of native Taiwanese into civil service starting in 1949. Kuomintang-managed organizations linked farmers together, helping them obtain credit and useful technology. The government channeled American aid into upgrading the infrastructure these farmers would need, and also introduced new techniques so the nation's agriculture could produce sufficient amounts to feed the urban population.¹³⁷

The Council on US Aid was also set up to oversee the effective distribution of US funds in Taiwan. As Gold writes:

¹³³ Gold 59.

¹³⁴ The Kuomintang would later tout its bloodlessness but, as Gold notes, the memory of 1947 and 1949 was surely recent enough to discourage resistance.

¹³⁵ Gold 65.

¹³⁶ Taylor 413-414.

¹³⁷ Gold 67.

Enjoying a degree of financial independence and not being nested in any particular ministry, CUSA maintained an autonomy [that] comparable bodies in other nations lacked. It was thus relatively free of the manipulation, corruption, and red tape that plague aid programs elsewhere.¹³⁸

The management of these funds won the approval and the praise of the American advisers who had been sent to help the ROC become a well-managed government effective in providing better livelihoods to the Taiwanese people.

The form of government established was officially democratic and civilian, with an executive and a legislative branch; still, presidential elections were suspended until the day all of China would be reunited under nationalist leadership and the Kuomintang maintained a host of covert intelligence agencies to suppress possible challenges to Chiang's rule. While not ideal in terms of providing the people with a say in how they were governed, this prolonged period of Kuomintang leadership with consistent policy measures did much to maintain stability on the island.

South Korea's transition away from colonial rule and into a democratic market-economy faced more obstacles.¹³⁹ An administration effective in meeting its economic goals eventually came to South Korea under Park Chung Hee, but for the first twelve years of the republic (the first fifteen after the end of Japanese colonization), the nation struggled with ineffective, self-serving leadership. Syngman Rhee's government had carried out a land reform of its own in 1948, helping to boost the president's popularity,

¹³⁸ 69

¹³⁹ Though the Korean War certainly contributed, Scitovsky has pointed out that the damage may have actually contributed to future equity, as the majority of the property that was destroyed belonged to the wealthy.

and much as with Taiwan, the US had also sent funds to the ROK in the hopes of creating a more self-sufficient economy. Still, as previously noted, despite his control over virtually all of the country's political organs, Rhee channeled the US funds into the coffers of influential businessmen, so that they might in turn donate funds to Rhee's party.

So, not only did South Korea fall behind Taiwan in terms of development (Scitovsky notes that South their GDP 1981 was essentially Taiwan's in 1975¹⁴⁰), Rhee exacerbated divisions in society. Opposition politicians were jailed, the Constitution rewritten to keep Rhee in power,¹⁴¹ and in 1959 one of his previous opponents was even executed. Eventually the public discontent with Rhee came to a head in 1960 following allegations that the 1960 vice presidential election had been rigged, which ultimately sparked nationwide protests driving Rhee from office.

So by the time of the 1961 coup that brought Park Chung Hee to power, South Korea was a deeply divided nation that had seen only mild results from the aid given it by the US. There appeared little hope for a strong economy or a real democracy emerging; furthermore, even though aerial bombing in the Korean War had left their side of the peninsula in ruins, North Korea's mass mobilization campaigns had seemingly brought their economy to life, with a per capita income more than triple that of the South's by 1960.¹⁴² Meanwhile in the South, many of the worst stereotypes of a capitalist economy were on display, as handful of individuals had benefitted from Rhee's favoritism. Many of these factors, or perhaps all of them, contribute to Hun Joo Park's assessment that Park

¹⁴⁰ 216

¹⁴¹ In 1956 it was altered to give him an unlimited number of terms.

¹⁴² Choong Nam Kim 101.

Chung Hee needed results and therefore embraced the “growth-at-all-costs” strategy. At any rate, the resources – and corruption – of these individuals were what made them useful to Park, who insisted that they would atone for their crimes from the Rhee years by carrying out his economic plans.

5.5 – The Results

Korea takes pride in many aspects of its post-war story. In particular, they can boast that they grew from an impoverished nation to a top global economy in a brief period of time, but also secured the survival of their state in the face of a hostile rival for legitimacy. Furthermore, the empowerment of a new middle class gradually led to a populace that demanded democratic representation. Likewise, Taiwan was an autocracy with a poor populace and looming security threat. So, with a growth strategy that produced no industrial giants comparable to Korea’s wealthy clans, how do its results in meeting these challenges compare to Korea’s successes?

The Economy

Land reform in both countries was effective in helping the two nations start from a standpoint of relative parity in wealth distribution. Both countries initially supported policies of import substitution, but would later change course, backing export production. As Sciovsky writes:

Beginning in the early 1960s, both of them engaged in deliberate policies of export promotion, which consisted partly in the dismantling or offsetting of

previously instituted protectionist policies that discriminated against exports and partly in measures actively discriminating in favor of exports. The first set of measures comprised the remission of duties on imported inputs into export production and (in Korea) also on imported inputs into domestically produced intermediate goods used in export production; the establishment of export-processing zones and bonded factories, whose main purpose was to cut the red tape involved in the remission of such duties; and the abolition of systems of multiple exchange rates in favor of a single exchange rate which ended that overvaluation of the domestic currency which had been the hallmark of import-substitution regimes.

Taiwan's economy grew by more than 7 percent a year starting from 1952,¹⁴³ and maintained this rate until near the mid-1980s. South Korea's grew at an average rate of 9.6 percent a year during Park's presidency¹⁴⁴ and – as previously mentioned – 9.5 percent under Chun. Taiwan, with its population of more than 23 million and area of 36,000 square kilometers, achieved a nominal GDP of \$474 billion in 2012.¹⁴⁵ Korea, with a population of more than 50 million and an area of 100,000 square kilometers (and much greater presence in the realm of international trade, as Taiwan has been losing an increasingly one-sided zero-sum game with the PRC in recent decades) had a GDP of \$1.13 trillion in 2012.¹⁴⁶

¹⁴³ Taylor 521.

¹⁴⁴ Choong Nam Kim 151.

¹⁴⁵ "Taiwan GDP." Trading Economics, Pub date unknown, March 30, 2014
<<http://www.tradingeconomics.com/taiwan/gdp>>.

¹⁴⁶ "South Korea GDP." Trading Economics, Pub date unknown, March 30, 2014
<<http://www.tradingeconomics.com/south-korea/gdp>>.

The methods they took in reaching these stages, though, diverged, as did the results. Many scholars have pointed to a more hands-off approach to industry by Taiwan's ruling party compared to South Korea. This, as Ha Joon Chang insists, is not to say that Taipei's approach was laissez-faire. Still, Yung Chul Park writes that Taiwan produced much less divergence in standards of wealth during its growth because it supported industries, rather than intervening in their affairs.¹⁴⁷ Park's description of Korea's policy toward its industry as one of intervention, but Taiwan's as merely support, is key:

The Taiwan government uses a medium-term economic plan that sets macroeconomic targets and formulates sectoral investment plans...

The Taiwan government has in general confined its role to providing social and physical infrastructure and other public goods. It has balanced public needs with a desire to encourage private enterprise in its intervention.¹⁴⁸

Sciovsky also points out that the extensive number of bodies that the South Korean government set up in the 1960s to plan the economy – from the Central Economic Committee to the Economic Planning Board to the Product Evaluation Board – had no comparable equivalent under the Taiwanese government.¹⁴⁹ Furthermore, instead of supporting a handful of wealthy individuals who would enter those fields, Taiwan's heavy industry during the development period was publicly owned, including China Steel

¹⁴⁷ Yung Chul Park, "Development lessons from Asia: The role of government in South Korea and Taiwan," *The American Economic Review* (1990): 118.

¹⁴⁸ Yung Chul Park 118.

¹⁴⁹ 229

from the 1970s onward. Therefore, unlike Korea, their government was not offering exclusive support to handful of firms to achieve goals in these areas.

Both nations achieved better-than-average wealth equality (especially among developed countries), but Taiwan's was significantly more equitable in their developmental years and they had much higher savings rates.¹⁵⁰ Plus, while both nations have modernized, raising standards of living substantially, Taiwan's growth was more balanced by region, leaving less pronounced disparities in wealth between rural and urban sectors. Furthermore, Taiwan's business sector has more participants, and these participants have typically been smaller. Hun Joo Park writes that Taiwan's approach prioritized stability but, in its determination to grow explosively, Park Chung Hee's approach "smothered" small business.¹⁵¹ Scitovsky's study notes that, by 1981, Korea's then-largest firm Hyundai had gross receipts triple that of Taiwan's ten biggest put together.¹⁵²

This size differential has been to Taiwan's advantage during periods of external shock. This was not always anticipated; Scitovsky warns that export-reliant countries are especially vulnerable to economic downturn, and that Taiwan is especially export-reliant. He notes, though, that they have done very well to "(diversify) the nature and direction of exports."¹⁵³ Evidently so: Taiwan escaped the 1997-1998 Asian Financial Crisis "relatively unscathed," while South Korea's currency collapsed, eleven of its top thirty *chaeböl* declared bankruptcy, and it was forced to accept a massive bailout package from the International Monetary Fund. "Most South Koreans viewed the acceptance of the

¹⁵⁰ Scitovsky 213.

¹⁵¹ Hun Joo Park 850.

¹⁵² 214

¹⁵³ 235-236

IMF reform package as a humiliating infringement on national sovereignty; a devastating national tragedy surpassed only by the Korean War,” writes Choong Nam Kim.¹⁵⁴

Security

Economic growth was a matter of national security for both South Korea and Taiwan in the early days of their republics. The eventual success of both nations is all the more remarkable considering that the ROC and ROK began with distinct disadvantages in their contest for legitimacy, particularly in the military. South Korea’s armed forces were poorly equipped compared to the North’s and – as the early days of the Korean War demonstrated – could not match the experience the DPRK’s troops had acquired under Kim Il Sung in Manchuria. Chiang Kai-shek’s forces did not have the same experience gap as South Korea’s, but faced even worse odds numerically: prior to the Korean War a PRC force of 800,000 – only a share of their total forces – were massed in mainland regions nearest Taiwan, seemingly waiting for the order to wipe out the Kuomintang. Chiang had amassed a force of 670,000, but a little less than half of these are believed to have been able-bodied.¹⁵⁵

Both were saved, as it happens, by the Korean War, as Kim Il Sung’s invasion prompted the US to make military commitments to both Seoul and Taipei, containing communism and leaving both national divisions at a stalemate that has since continued. However, as stated earlier in this chapter, both nations had to prove to skeptics in the US government that they would remain a worthwhile investment. In South Korea’s case, the economic boom and establishing of HCI (heavy and chemical industry) helped make its

¹⁵⁴ 296-297

¹⁵⁵ Taylor 421

military a credible deterrent. Its stature continued to grow and the North's economy crumbled, particularly during the 1990s (see fig. 6), eventually giving the South a per capita GDP nearly twenty times that of the North's. Even with the North's nuclear program, South Korea's combined economic successes and diplomatic prestige, even among the North's former allies, all but assures that it will prevail. Pyongyang has therefore in recent years resorted to surprise attacks on a limited scale that cannot hope to defeat the South, but can undermine stock market confidence in Seoul and cajole it and its allies into providing aid to make up for its food shortages.

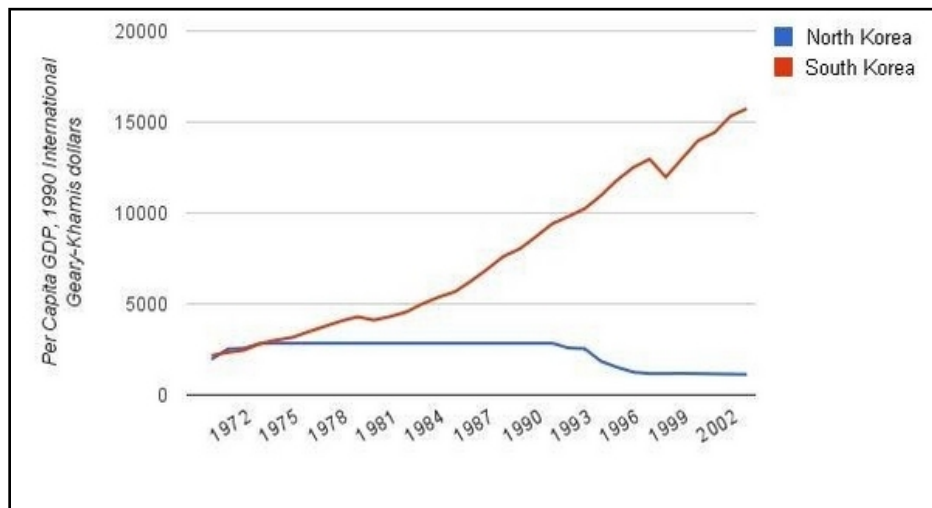


FIGURE 6: Per capita GDP growth in North and South Korea, 1970-2003

Source: Intellectual Takeout, <http://www.intellectualltakeout.org/library/chart-graph/capita-gdp-north-korea-vs-south-korea-1970-2003>

Taiwan's fate is less assured, given the massive disadvantages it faces in land and population in comparison to the PRC, not to mention Beijing's own adaptation of

developmentalist policies that have narrowed its per capita income gap with Taipei. Nonetheless, Taiwan has survived bleak phases before; in the 1970s Taipei watched as the US normalized relations with the PRC and its own international standing was diminished when its rival was granted UN membership. Taiwan lost its position in the UN, then its official ties with the US in 1979 and the mutual defense agreement in 1980.¹⁵⁶ *De facto* ties with the US remain, however, and its relations with the PRC have improved: with the 2010 Economic Cooperation Framework Agreement between the ROC and the PRC, it appears Beijing considers trade linkages with its successful rival a better means of achieving unity than invasion.

Democratization

Korea would seem to have an edge, at least slightly, in this area. Taiwan's democratic transition took longer, with Chiang ruling until his death in 1975 and his son assuming leadership thereafter. Thorough dominance by the Kuomintang continued into the 1980s, with a credible opposition not emerging until the Democratic Progressive Party's foundation in 1986. An opposition party candidate was not elected president until 2000, two and a half years after Korea,¹⁵⁷ despite its head start in development, smaller wealth disparity, and lack of domestic melees comparable to Kwangju.

However, was this due to any difference in economic systems? It would seem that in this respect, Korea's intense ideological struggles, while they occasionally became enflamed into large-scale violent outbreaks, may have been advantageous. Korea

¹⁵⁶The US continued to sell arms to Taipei, however.

¹⁵⁷ One could argue seven and a half; negotiations may have incorporated Kim Young Sam into the ruling bloc prior to his 1992 win, but he got to the bargaining table through decades of unflinching criticism of the ruling party.

maintained vocal, if not powerful, minority parties even during Park and Rhee years, and at times, namely the late 1970s, this minority was even able to serve as a serious hindrance to the authoritarian president.¹⁵⁸ The polarization in Taiwan's politics did not emerge in Chiang Kai-shek's lifetime; though there were localized opposition parties, a credible national alternative to the Kuomintang did not emerge prior to the Democratic Progressive Party's foundation in 1986.

In modern times the ideologies of Taiwanese and South Korean leadership have taken on a similar makeup. In the early part of the last decade, both had center-left presidents whose ability to effect their agenda was limited due to conservative control over the legislature. In early 2008, conservatives again took the office of president in both nations and have maintained it since then. Korea rates better on the Economist Intelligence Unit's Democracy Index,¹⁵⁹ but has performed consistently worse in the Corruption Perceptions Index published each year by Transparency International.¹⁶⁰

5.5 – A Question of Necessity

The purpose of this chapter has not been to praise Taiwan, which has economic problems distinct from Korea's.¹⁶¹ It has not been able to avoid many of the pitfalls of development that Korea has suffered, namely slowdown as labor costs increased. Also, regardless of whether the Jeju or Kwangju uprisings were greater tragedies in terms of

¹⁵⁸ Namely the 1979 election that strengthened minority powers in the National Assembly, eventually leading to Park Chung Hee's assassination.

¹⁵⁹ "Democracy Index 2012: Democracy is at a Standstill," Economist Intelligence Unit Limited March 14, 2013, March 28, 2012 <<http://pages.eiu.com/rs/eiu2/images/Democracy-Index-2012.pdf>>.

¹⁶⁰ "Corruption Perceptions Index – 2012," Transparency International. December 6, 2012, December 6, 2012. <<http://cpi.transparency.org/cpi2012/>>.

¹⁶¹ Yung Chul Park has listed several, from the non-traded goods being too small to the housing sector being underdeveloped.

lives lost, the repressive tactics of the Kuomintang, particularly in 1947 and 1949, are unjustifiable.

The purpose is not even to suggest that Taiwan's developmental story is superior to Korea's, but only to raise questions about the necessity of the *chaebŏl* in Korea's development. With a similarly effective leadership in place following the foundation of the republic, South Korea's rapid development could have begun sooner than it did. With a policy that promoted growth, but did not handpick a few of businessmen as the engines of the nation's development, South Korea could have enjoyed even greater wealth parity. Labor strife that emerged in the 1970s and 1980s, and concerns over economic democratization and regional development starting in the 1990s could have been eased. Furthermore, the effects of the Asian Financial Crisis would have been substantially mitigated without massive conglomerates to overspend and overextend themselves.

The complications in reforming the *chaebŏl* are undeniable, as a substantial reform package involving a more rigorous corporate governance regime, a thorough investigation into their practices, de-subsidization, and discontinuation of the legal advantages they enjoy would surely result in short-term economic and political losses. This has discouraged past Korean presidents, such as Roh Tae Woo and Kim Young Sam, from carrying them out. What also cannot be denied are their successes in branding and overseas expansion, as Samsung and Hyundai are internationally recognized brands now considered a source of international pride.

Their hegemonic status means that achieving reform will therefore require a serious rethinking. This includes evaluating Korea's early authoritarian leaders on not only moral grounds but re-evaluating their tactics, as well as examining the keys to

ensuring US protection and building a credible military deterrent. They cannot change how the developmental dictatorship unfolded, but questions such as these offer a new perspective on the Park legacy. Reform will be easier to achieve when the question is no longer “should the *chaebŏl* be reformed?” but “did we ever really need them?”

CHAPTER 6 – KEYS TO REFORM

6.1 – The Current Environment

The *chaeböl* remain the primary beneficiaries of the Seoul government's largesse, raking in 21 trillion won (a little more than \$19 billion) a year through subsidies, public procurement, and tax breaks (see fig. 7).¹⁶² Even so, of the forty-six companies considered *chaeböl*, twenty had debt ratios of greater than 200 percent, and half of them were not earning enough revenue to pay interest on their debt.¹⁶³ Could a professional, rather than family-based management solve this problem? Maybe, but Beck¹⁶⁴ and others consider such a transition unworkable due to an assortment of factors.

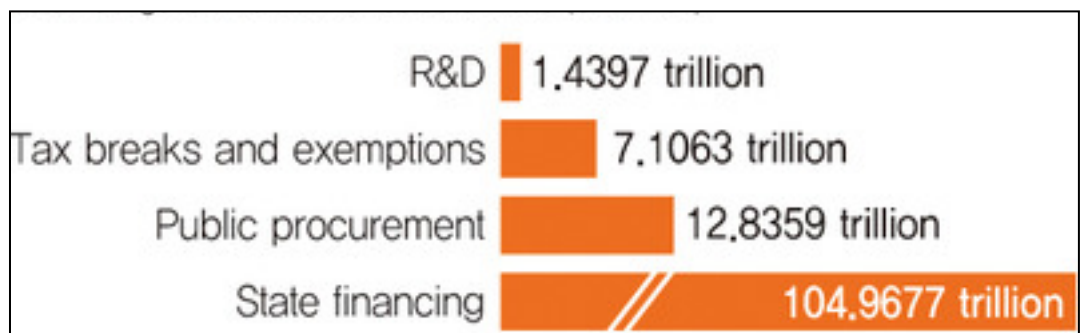


FIGURE 7 – State support for Korea's big corporations as of 2013

Source: The Hankyoreh, http://english.hani.co.kr/arti/english_edition/e_business/622353.html

Even if it could be demonstrated conclusively that the *keiretsu* model is adaptable in Korea, there is an additional problem: World War II defeat, after which

¹⁶² Ryu Yi-geun, Lee Wan, and Song Gyung-hwa, "Big Corporations Still Receiving Generous Government Support," *The Hankyoreh* Feb. 3, 2014, March 28, 2014. <http://english.hani.co.kr/arti/english_edition/e_business/622353.html>.

¹⁶³ Kwak Jung-soo. "New Report Shows Many Chaebol Dangerously in Debt," *The Hankyoreh*, Nov. 7 2013, March 28, 2014 <http://english.hani.co.kr/arti/english_edition/e_business/610233.html>.

¹⁶⁴ 1021

Japan's leaders found themselves working with the provisional government of the US, is what prompted Japan's transition away from the family owned structure. The *zaibatsu* has served as a major rival for Japan's economic bureaucratic leaders before and during the war, making the bureaucrats more than willing to restructure the conglomerates when the Americans demanded it. The event in Korea's history that most compares to this sweeping defeat may be Asian Financial Crisis, during which Korea's economy was revamped under IMF direction, but a complete overhaul of the *chaeböl* structure was not demanded.

So, outside of a reform-minded president with firm control over the legislature, reform of the *chaeböl* may require overwhelming public support (or perhaps both). This is the reason for questioning the policies that brought about the *chaeböl* and comparing them to other nations' growth strategies: one cannot change the past, but the realization that other tactics were possible may help dispense with their veneer of necessity. Furthermore, Korea's leaders must be frank in their appraisals of Korea's economic future. Growth in Korea, as in most fellow Asian Tigers, has diminished, and this trend shows no sign of abating. If the public could be convinced that the massive growth of the past is not coming, one hopes that priorities would change – future studies may conduct surveys of the Korean public to this effect.

For the time being, though, the winner of South Korea's 2012 presidential election, conservative candidate Park Geun Hye, would seem in stronger position to reform the *chaeböl* than her predecessors – provided, of course, that her administration seriously means to, and was not merely testing the political winds in 2012. Though they traditionally have closer ties to the business community, presidents from the conservative

party have natural advantages: namely, they tend to win by larger margins¹⁶⁵ and enjoy larger, more durable majorities in the National Assembly. Also, as a conservative and daughter of the president who laid the foundations for Korea's economic miracle, it would be difficult for conservatives to brand her "dangerous," "a radical," and the like. Finally, unlike her immediate predecessor, Park does not owe her career to success in the conglomerates, nor is she dealing with the effects of an international economic crisis that requires urgent attention.

Chaeböl greed, vanity, and disconnect from the lives of most of the populace is, as discussed at the beginning of this thesis, a trope in modern Korean cinema and TV dramas. Still, even in a popular program like *My Princess*, where the portrayal of the conglomerates is not entirely flattering, it is telling that the main female lead's ticket out of her mundane existence, her royal blood, puts her on par with the biggest *chaeböl* family, making her a suitable partner for its heir. Despite unflattering media portrayals, the *chaeböl*, particularly Samsung, are hegemony, even if the distrust in Korean society Eckert wrote of in 1990 has not completely dissipated.

Antonio Gramsci once wrote that cultural hegemony is maintained through a combination of force and consensus, and creating the illusion that the force is based on the will of the majority. In this case, the *chaeböl* exercise consensus by perpetuating the belief that their success is good for the nation, and their centrality does make them difficult to counteract: Samsung alone accounts for 17 percent of national GDP.¹⁶⁶

¹⁶⁵ Park Geun Hye's relatively close margin of victory, 3.6 percent, exceeded either Kim Dae Jung and Roh Moo Hyun's, though a currently unfolding scandal involving interference from the National Intelligence Service appears to have had at least some bearing on that result.

¹⁶⁶ Jennifer Daniel. "Shell, Glencore, and Other Multinationals Dominate their Home Economies. April 4, 2013. [BusinessWeek](#). Accessed February 27, 2014.

Samsung also has had undeniable success in innovation that does much to shield it from accusations that its practices are bad for the nation's economy and image; in times of economic upheaval such as the late-1990s it has acquired a reputation for being "generally better managed" than its peers.¹⁶⁷ The *chaebŏl* also exercise force against their critics, however; under South Korean law, companies such as Samsung can file suits claiming defamation against journalists¹⁶⁸ and having critical lawmakers such as Roh Hoe Chan arrested and evicted from the Assembly for publishing incriminating wiretaps on his Web site.¹⁶⁹

There is little faith among observers that Park Geun Hye will make serious efforts to counteract their influence; fears of an economic slowdown had caused her campaign to tone down its rhetoric by the end of her campaign.¹⁷⁰ Inaugurated in March 2013, by summer Park had already yielded to pressure from the Federation of Korean Industries (FKI) and agreed to cut taxes on the *chaebŏl* tactic of funneling work to affiliates. These taxes were designed to curb illicit wealth accumulation, but the FKI had argued that they discourage the conglomerates from investing.¹⁷¹

If Park wants to provide a better and fairer future for all of Korea, reform the *chaebŏl* is still necessary. To accomplish reform a multi-tiered effort will be required.

Here are three suggestions.

¹⁶⁷ Graham 36.

¹⁶⁸ John M. Glionna, "Samsung Doesn't Find Satirical Spoof Amusing," The Los Angeles Times May 10, 2010, April 13, 2013. <<http://articles.latimes.com/2010/may/10/world/la-fg-korea-samsung-20100510>>.

¹⁶⁹ David McNeill and Donald Kirk, "Tax Evasion, Bribery and Price-fixing: How Samsung Became the Giant That Ate Korea." The Independent February 25, 2013, February 25, 2013. <<http://www.independent.co.uk/news/world/asia/tax-evasion-bribery-and-pricefixing-how-samsung-became-the-giant-that-ate-korea-8510588.html>>.

¹⁷⁰ Ji-Hye Jung, "Park Tones down on Chaebol Reform," The Korea Times November 16, 2012, April 25, 2013 <http://koreatimes.co.kr/www/news/nation/2012/11/113_124907.html>.

¹⁷¹ Jung-soo Kwak, "Park Administration Bowing to Chaebol Pressure on Reform Measures," The Hankyoreh March 28, 2014, Aug. 4, 2013 <http://english.hani.co.kr/arti/english_edition/e_business/598200.html>.

1. Be frank about growth prospects

Ernest Gellner once wrote that modern industrialized society is the first phase of human development to expect continuous improvements in their economic standing. It would be asking a great deal of Korea that it be the nation to buck this trend, but for the nation to take on the task of *chaebŏl* reform, a change in how the general population views economic growth will be necessary. In this respect the nation has been a victim of its own successes, as the rapid expansion of the economy starting in the early 1960s and continuing throughout the 1980s has created a benchmark that a nation, particularly one without the vast supply of cheap labor and foreign aid Park Chung Hee enjoyed, cannot expect to match. As Korea's population ages this trend will not improve: growth is expected to slow to 2.7 percent between 2011 and 2030, then fall to 1 percent between 2030 and 2060.¹⁷²

Understandably despised for his coup, his corruption, and for Kwangju, Chun Doo Hwan is nonetheless the only Korean president to have made a multi-year effort investment in the long term by resisting expansion. The conditions in which he enacted such policies were unique to their moment in Korean history, though: disagreements among Kim Young Sam and Kim Dae Jung had left Chun without a unified opposition to his policies, his military was still the dominant force in Korean society, and following Park's death, Chun's firm position did much to calm the nerves of international investors unsure of whether or not to keep lending to Korea.¹⁷³

¹⁷²"OECD Long Term Growth Report," The Organization for Economic Cooperation and Development Nov. 2012, March 28, 2014.

¹⁷³ Choong Nam Kim 166-173.

In the late 1970s Kim Young Sam was at the heart of the dispute that eventually cost Park Chung Hee his life. His own presidency would indicate that the lesson he learned from that debacle (and Roh Tae Woo's slide into lame duck status), is that the economy trumps all else, and that slowdowns must be avoided. Sadly, the Asian Financial Crisis his administration ended on is not the only problem to have been created by the single-minded prioritization of growth; in an effort to revive consumer spending after the crisis, Kim Dae Jung's administration relaxed restrictions on credit card spending. This burst of debt spending not only caused a slowdown years later for Roh Moo Hyun's administration, but in recent years Korea has drifted far from the thrift that Park Chung Hee sought to inculcate: in 2010, Korean household debt equaled 155 percent of disposable income, compared to 138 percent among US consumers prior to their subprime mortgage crisis.¹⁷⁴

This mentality goes deeper than popular discontent with Roh Tae Woo and his "recession" of greater than four percent annual growth. Choong Nam Kim, to whom this thesis is greatly indebted, praises Park Chung Hee as a "heroic leader" despite his authoritarian policies¹⁷⁵ and criticizes Roh Moo Hyun for his "poor" economic performance¹⁷⁶ because the Korean economy averaged 4.25 percent annual growth during his term. This was indeed lower than the OECD average at the time, but the bursting of the US housing market bubble near the end of the decade revealed much international growth to be an illusion. Lee Myung Bak and Park Geun Hye would have considered four

¹⁷⁴ Choonsik Yoo, "Analysis: South Korea's Reckless Consumers Edge towards Debt." Reuters August 25, 2011, May 06, 2013 <<http://www.reuters.com/article/2011/08/25/us-korea-economy-debt-idUSTRE77O4JU20110825>>.

¹⁷⁵ Choong Nam Kim 145.

¹⁷⁶ Ibid. 373.

percent growth a boon, as would the economies of the United States and much of Europe today.

2. Uphold the rule of law

The legal advantages enjoyed by business giants through lenient sentencing, presidential pardons, and defamation laws making it risky to criticize them shows how Korea's leaders continue to overlook the rule of law. Gi-Wook Shin has written of Korea's "poverty of liberalism,"¹⁷⁷ in that leaders of both North and South Korea have persistently upheld nationalist objectives over individuals' civic rights. If individual liberties are to be upheld, the principal that all individuals are equal under the law must be enforced, regardless of wealth and influence.

In a roundabout way, Lee Myung Bak's administration may have encouraged this principle. Lee granted a wave of pardons of his associates in the last month of his presidency, prompting outrage and criticism not only among opposition parties, but also Park Geun Hye and Kim Geo Seong,¹⁷⁸ chairman of Transparency International, Korea, who called for an overhaul of the presidential pardons system in Korea. In addition to this, a more thorough corporate governance regime – Korea's current one has a poor reputation internationally¹⁷⁹ – should also be established.

¹⁷⁷ Shin 132-134.

¹⁷⁸ Geo-sun Kim, "Stop Misuse of Presidential Pardons" Transparency International February 6, 2013, May 02, 2013 <<http://blog.transparency.org/2013/02/06/stop-misuse-of-presidential-pardons/>>.

¹⁷⁹ Chris Hayes, "Korean Corporate Governance Reported as One of the Worst by an Economist." The Korean Law Blog May 9, 2013, May 10, 2013 <http://www.thekoreanlawblog.com/2013/05/korean-corporate-governance-reported-as.html?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+thekoreanlawblog%2FvNsW+%28The+Korean+Law+Blog%29>.

Some recent signs have been encouraging. In early 2014, the chairmen of both Hanwha and LIG received early releases from prison after receiving mild punishments from an appellate court over embezzlement and breach of trust convictions. Upon conviction for embezzlement, SK Group chairman Chey Tae Won therefore held out hope for lenient treatment, but the Supreme Court eventually upheld a three-and-a-half year sentence, part of a trend toward stiffer sentences that has already been linked to Park Geun Hye's campaign promise of increased economic democratization.¹⁸⁰

That it took this long for this development to take root can largely be blamed on Kim Young Sam. Though Chun Doo Hwan and Roh Tae Woo before him talked of *chaeböl* reform, Kim embarked on a much more serious anti-corruption campaign than either of them, and all presidents since. In both 1995 and 1996, the first years of Transparency International's Corruption Perceptions Index, Korea ranked twenty-seventh internationally in freedom from public sector corruption. After his departure, the nation backslid, and in the 2012 edition of the index ranked forty-fifth, behind Japan (seventeenth) and fellow Asian Tigers Singapore (fifth), Hong Kong (fourteenth), and Taiwan (thirty-seventh). South Korea has never finished ahead of any of these four countries in the index's eighteen-year history.¹⁸¹

Furthermore, had Kim not pursued extravagant dreams of economic growth but instead insisted on reform of the *chaeböl*'s business practices and prosecuting the ten *chaeböl* leaders connected to Roh Tae Woo to the fullest extent, he would have set a precedent; experts such as Graham state that Kim could have avoided the worst effects of

¹⁸⁰ Kang Jin-Kyu, "SK chairman's sentence is upheld," *JoongAng Daily*, Feb. 28, 2014, Feb. 28, 2014 <<http://koreajoongangdaily.joins.com/news/article/article.aspx?aid=2985637>>.

¹⁸¹ Transparency International

the Asian Financial Crisis had the *chaebŏl* over-expansion not been encouraged. It would certainly have been difficult for them to expand had their practices faced strict legal scrutiny during this period.

Related to this issue, albeit indirectly, is Korea's draconian defamation law; Kim and Shin's paradigm of constructive "open debate and criticism" is difficult to achieve when substantive criticisms of influential targets are treated as an offense subject to lawsuit and potentially prosecution. An employee at a major English-language newspaper in Seoul once told me that his employer had, as an unofficial policy, two subjects it would never run critical stories about: Christians (who, thanks to mega churches have a rich, powerful lobby of their own) and Samsung. One person not cowed by this law is Kim Yong Cheol, who provided legal counsel to Samsung before leaving the company in 2004.

Kim has made extraordinary claims of wrongdoing against the firm, particularly through his 2010 book, *Samsungŭl Saenkakhanda (Thinking Samsung)*, which achieved best-seller status through word-of-mouth, having overcome a near-total media blackout.¹⁸² That same year Samsung sued Michael Breen, a *Korea Times* columnist, over a satirical column in which the hereditary succession process at the company was compared Kim Jong Eun's preparations to replace Kim Jong Il as North Korea's leader.¹⁸³ Kim Yong Cheol, on the other hand, was never sued. In a 2010 interview, he told me this is because Samsung did not want his allegations to receive more attention.

¹⁸² Sang-Hun Choe, "Book on Samsung Divides Korea." *The New York Times*. April 25, 2010, April 13, 2013 <http://www.nytimes.com/2010/04/26/technology/26samsung.html?pagewanted=all&_r=0>.

¹⁸³ The suit was eventually dismissed in court, but private citizens the prospect of facing Korea's largest conglomerate in court remains intimidating.

3. Revitalize the financial sector and support SMEs.

Though not ideal from a market purist's point of view, temporary support for sectors that have been disadvantaged as a result of past policies may be necessary. Investment, so to speak, in the financial sector to upgrade standards in lending can be considered insurance against future economic downturns, while government fostering of small businesses may soften the blow should a stiffer corporate governance and increased credit restrictions hamper results at the nation's top business groups. Regarding the first suggestion, the government may invest in promising students interested in finance and banking, including sponsoring opportunities for them to study abroad in nations whose financial sectors are highly regarded internationally.

Regarding the second, Pao-Long Chang and Hsin-yu Shih note that Taiwan has established a series of subsidies so that smaller companies can "share the R&D risk"¹⁸⁴, given the developed nature of Korea's economy this would not be expected to ignite a boom like Taiwan experienced in the 1950s, but can shift the concentration of wealth in the economy downward to a degree. Israel, another small country founded in the late 1940s that has faced numerous national security threats, has launched a similar series of R&D investment funds. However, its success in fostering an extraordinary number of startups – it boasts the third-most NASDAQ-listed companies in the world, behind only the far-larger US and PRC¹⁸⁵ – may be more cultural than financial. Israelis, experts have noted, seem more accepting of risks associated with entrepreneurship, whereas Korea has

¹⁸⁴ Pao-Long Chang and Hsin-Yu Shih, "The innovation systems of Taiwan and China: a comparative analysis," *Technovation* (2004) 529-539.

¹⁸⁵ Leon Lazaroff, "China to Capitalize on Nasdaq Jump With Tech IPOs, BNY Says," [Bloomberg.com](http://www.bloomberg.com/news/2012-05-07/china-to-take-advantage-of-nasdaq-jump-with-tech-ipos-bny-says.html), May 7, 2012, Feb. 28, 2014 <<http://www.bloomberg.com/news/2012-05-07/china-to-take-advantage-of-nasdaq-jump-with-tech-ipos-bny-says.html>>.

seen little interest in startups, particularly since the bursting of the Internet bubble near the beginning of the last decade.¹⁸⁶ Fostering this change is an additional challenge for Korea's leaders.

6.2 – The Time to Act

Key tests of the Park administration's resolve for reform will arise as executives from the wealthy clans find themselves in legal and financial trouble – the former is happening even now and the latter, based on their debt ratios, is a distinct possibility. The latter will be a particularly stern test, as the decision to abandon a large firm to bankruptcy has little precedent outside Daewoo, and may lead investors to withdraw funds from other debt-addled conglomerates. To simply continue supporting them, however, is to leave the structural inequality in Korean society in place, leave their unsustainable practices unaddressed, and leave the less privileged classes to struggle through the lean years ahead.

Park can begin by using the bleak OECD projections as grounds for rolling out an improved SMEs support package, and investing in the upgrading of the financial sector as Graham suggested. From there, government funds that would have gone into *chaeböl* coffers can be steered toward smaller firms. As this gathers momentum, stricter policies on corporate governance can be introduced, along with a tougher stance on white collar crime.

The president cannot do this alone, of course, as societal norms regarding small-business failure, rule of law, and growth expectations will have to evolve. Still, Park has

¹⁸⁶ Dan Senor and Saul Singer, Start-up Nation: The Story of Israel's Economic Miracle (New York, NY., 2009) 87-88.

opportunities to accomplish reform that her predecessors did not enjoy and should not waste them. She should act quickly, though; by the time of the 2016 legislative elections it may be too late.

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